PRODUCT MONEY

WORKS BY SIR LEO CHIOZZA MONEY

ECONOMICS, SOCIOLOGY AND POLITICS

British Trade and the Zollverein Issue
Elements of the Fiscal Problem
Riches and Poverty
Riches and Poverty (1910)
Money's Fiscal Dictionary
Insurance *versus* Poverty
The Great State (with H. G. Wells and others)
The Nation's Wealth
The Triumph of Nationalization
The Peril of the White
Can War be Averted?

VERSE

The Immortal Purpose, and Other Poems
Sonnets of Life

A CALENDAR OF PROGRESS

1710 Newcomen built his Steam Beam-Engine

1730 Abraham Darby smelted Iron with Coal.

1764 Hargreaves invented the Spinning Jenny.

1769 James Watt patented his Steam-Engine Condenser.

1785 Cartwright invented the first Mechanical Loom

1800 Volta invented the Electric Battery

1801 Symington built the steamship *Charlotte Dundas*

1801 Trevithick built the first Locomotive Engine.

1819 The steamship *Savannah* crossed the Atlantic

1825 Stockton-Darlington Railway opened.

1829 George Stephenson built the *Rocket*.

1831 Faraday discovered Magneto-Electric Induction.

1917 Ministry of National Service reported (Bluebook, Cmd. 504, 1920) that for the period Nov 1, 1917 to Oct 31, 1918, 'out of 2,425,184 examinations of men of military age . approximately only 1 in every 3 had attained the full normal standard of health and strength approximately 1 in every 3 presented marked physical disabilities' A further 10 per cent found 'totally and permanently unfit.'

1932 The Chief Constable of Liverpool reported that in 1932 165 gangs of children, many of tender years, were engaged in crime, sometimes with the connivance of their parents. Four children, aged 7 to 12, committed theft in 38 shops in a single evening, their parents receiving the stolen property.

1933 The War Office standards for new recruits for Infantry of the Line are: Minimum height, 5 ft. 4 in ; minimum weight, 115 lb

PRODUCT MONEY

A SEQUEL TO 'RICHES AND POVERTY'

BY

SIR LEO CHIOZZA MONEY

PARLIAMENTARY SECRETARY TO THE MINISTRY OF PENSIONS 1916 PARLIAMENTARY SECRETARY TO THE MINISTRY OF SHIPPING, CHAIRMAN OF THE TONNAGE PRIORITY COMMITTEE AND OF THE NATIONAL MARITIME BOARD, 1916–1918

The valleys also shall stand so thick with corn, that they shall laugh and sing

PSALM LXV

WITH THREE ILLUSTRATIONS

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PREFACE

A CERTAIN conception of money, as a 'circulating medium,' as something to 'make,' as something to be dealt in, as something to store, as something that knows a magical increase unknown to physical science, as something for which all things, even men, can be bought and sold, has for ages ruled the world and its labours

It is a conception that has led many thoughtful men to hate the word; to disdain its character and implications.

In these pages the accepted conception of money is denounced, as much on material as on moral grounds; it is suggested that it is inherently false, and that no amendment in its practical application can make it truly economic or tolerable. A new conception is described and termed PRODUCT MONEY, this name being chosen because the system is one in which the means of payment is based upon the certification of product, making every producer a consumer, immediately and automatically, because he has produced. The present frustration of production is thus avoided.

Here is novel matter for discussion. I cannot hope to have given consideration to all the points that might arise in the practical working of my scheme,

but I am bound to say that the difficulties seem to me to disappear as one applies thought to the essential idea No difficulties seem to arise in any way comparable to those we encounter in money as it is.

I invite all those who are interested in the world of work—and who is not ?—to give impartial consideration to the proposal, and to assist in its development It is a question in which many may help in matters of method and detail.

LEO CHIOZZA MONEY

May 1933

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A STUDY IN MASS CONSUMPTION. LONDON SCHOOL CHILDREN IN ST JAMES'S PARK . 62
(*From a photograph by Central Press Photos*)

PROEM

Science to Society

I GAVE you power, and you have made men weak;
  I gave you engines, and you made them master,
I broke up earth and rock that you might seek
  The good of men, and you have wrought disaster,
I gave great harvest, and you hoard or burn it
  While scores of millions cry to heaven for bread,
I showed the way to plenty and you spurn it;
  How else you use me ask the war-time dead!

The steel I give may serve for sword or share,
  My engines deal alike with good or ill;
Your guns, your tenements, your rubbish, bear
  The black sign-manual of perverted will
The instruments are mine; what have you done
That men should fear the knowledge I have won?

—*Sonnets of Life*

PRODUCT MONEY

CHAPTER I

INTRODUCTORY

1. Product Money Simply Stated

IT is here suggested that it is necessary to make a complete revolution in our conceptions of the functions and employment of money.

Product Money is not money as now commonly understood and employed. It is essentially not a 'circulating medium,' and it is part of the argument for its adoption that it possesses a virtue that no money of circulation could possibly possess

Product Money is thus defined · *Non-circulating money, functioning as an order upon production, issued to producers upon certification of approved product by a suitable authority.*

Thus representing the approved work of producers, Product Money liberates production by enabling each producer to command the work of other producers. Each producer becomes an effective consumer; each consumer, therefore, an effective absorber of production. Thus we get a liberated Producer-Consumer, furnished with a means of payment which increases

automatically with the advance of modern scientific production

A unit of Product Money is an order upon productive power, earned by virtue of the act of producing. It does not circulate, for it loses buying power when spent When the order is used, the unit ceases to exist, for it has done its work—its great and beneficent work of enabling a producer to become a consumer.

Therefore the term 'inflation,' so familiar in current monetary discussion, becomes obsolete and meaningless in relation to Product Money There can be no inflation of Product Money, because only certified product is translated into money

With Product Money, the greater the product the greater the issue of money That is its essence and virtue The more prolific the machines, the greater the exertions and fruitfulness of labour, the more Product Money there is to spend, because it grows with output

The certification of Product Money in an industry makes those who work in that industry customers for the products of other trades Product Money creates demand in certifying that output has been made

Buying and Selling thus assume new connotations

Buying becomes the use of Product Money to command whatever product is needed and available, whether produced by the spending producer or by other producers No longer does the mass of producers consist of poverty-stricken consumers unable to buy freely what they themselves make or what other producers make.

Selling becomes the delivery of product to the

order of effective Prodncer-Consumers armed by the act of certified production with ample means to buy products. With Product Money, to produce to approval is to be paid. When the producer has received for his approved product payment in Product Money, the transaction is closed so far as he, the producer, is concerned as a 'seller'; it is then his duty to deliver his goods on receipt of Product Money issued to other approved producers. The Product Money in the hands of a buyer comes to the producer as a legal and certified order to supply goods for which he himself has been already paid in Product Money; the order executed, the Product Money which entitles a producer (seller) to become a consumer (buyer) is audited as proof of delivery and cancelled.

Trade thus changes its character Now it is a struggle for marginal gains (termed 'profits'), narrowly limited by petty buying, and fluctuating with the vicissitudes of a monetary system so imperfect as to he heyond scientific control, and so variously understood that its chief practitioners differ widely upon the details and methods of its management. The Product Money system equates Supply and Demand, and gives these terms a new and beneficent meaning.

2. Monetary Revolution

THE abandonment of 'currency' as inherently inadequate for the liberation of scientific production, and the substitution of Product Money, amounts to a complete revolution in the process of exchange.

What I propose should be examined on its merits as an invention, and every prejudice and prepossession should be swept from the mind

It will not disturb me in the least if a critic urges that to make the great change from Currency Money to Product Money may cause difficulties of transition. No originator can be properly reproached because his conception renders an existing article, office, institution, or service obsolete It is the very nature and function of useful invention to cause change, and it is merely stupid to complain of it. The locomotive-engine dispossessed the mail coach, but it enlarged the life, the knowledge, the movement, the feeding, the supplying, of hundreds of millions of people. He who would have suppressed, as many would have suppressed, the locomotive, was not a friend but an unconscious enemy of mankind. Britain affords not a few examples of railway lines deliberately constructed in the wrong places because of the opposition of men of power, authority and wealth, who ruled the means of transport through the possession of that great social factor, area.

Product Money is a conception of far-reaching importance, proposed and calculated to change the entire face of industry and society. In all its implications it must cause a sea-change in affairs as we know them It amounts to a complete break with old traditions It is claimed that by virtue of its inherent excellence it would not merely enlarge production out of all present knowledge, but, what is fully as important, change the atmosphere, the motives, the morale of all work. It would automatically increase the activities of usefulness while diminishing

and finally abolishing the many existing activities of uselessness.

The terrible, the degrading, and humiliating aspect of work as we know it is that it makes the individual unable to give of his best. Necessarily our hands are subdued to the colour we work in. How many of us can honestly assert that in all the conscious activities of our lives we have done the things we wanted to do, made the things we wanted to make, or developed those qualities in us most respected by that fearful thing we call a conscience? In what I have termed the Marginal Life, no more than a fraction of our existence is exploited; too often the fraction we most despise. Society owes much to the beneficent thought, the philanthropic endeavours, the kindly offices of men and women removed by good fortune from the need to struggle in a commercial world. Given a system of production liberated by money which at once certifies useful output and enables it to be freely exchanged, we should offer every working individual the psychic elevation enjoyed in the past by a favoured few. That, of course, is not to say that every individual would either seek or attain elevation; it is, however, to assert and to claim, in defiance of the cynic, that thus to transform the motive and character of labour would unconsciously work upon the minds of men and develop in freedom the wings now drooping within economic bars.

While I am not called upon in these pages to defend a new proposal merely because it causes change, I am glad to be able to add the expression of a conviction that, upon the lines I have indicated in Chapter VII, there need be no considerable hardship in the transi-

tion to Product Money. I do not believe for a moment that the cases of hardship caused by the change would be nearly as great as now arise continuously from the denials, the frustrations, the speculative failures, the chicaneries which are common products of our society Few are the families among us that can claim to be free from economic trouble, and I have never yet heard of any family, high or low, without members who have suffered sheer economic disaster. The great majority are oppressed by a poverty, scientifically obsolete, which science, absorbed in the study of physical reality, has failed to trace to the ultimate process of exchanging products

The growing movement towards catastrophic change should not surprise us. Rather it is cause for surprise that the masses have been so long patient What are commonly called great peoples are in fact multitudes of the unfortunate, our society is marked by forms of physical, mental, and material poverty happily unknown to the savage Such things may not endure for ever, and it would be well to change them by general consent Let us be properly ashamed of the thinly veneered mass of misfortunes to which we have applied in the past the term 'prosperity,' and recognize the need for profound and fundamental change The proposal to exchange products by means of Product Money may or may not be the way out, but it is useless to criticize it on the ground that it goes far The world needs deliverance, and whatever else may be right or wrong, no reasonable mind can reject the conclusion that the existing disorder must pass.

CHAPTER II

MAKING GOODS AND MAKING MONEY

1. The Failure of Currency

THE world of work is frustrated by an obsolete conception of money. While the rapid scientific advance confers upon us increasingly the power to produce wealth in every desirable form, money remains in essence what it was when mankind was still condemned by Nature to an almost universal condition of unescapable poverty. No serious attempt has been made to reduce the exchange of commodities to a science The economists of all schools are everywhere found accepting money as it is, while vainly endeavouring to adapt it to the conditions of modern wealth production What are called business men never cease to grumble at the 'banking' that curbs them, but they rarely attempt to analyse the real nature of their own complaints. The bankers themselves utter many diverse opinions, but never dream of challenging the accepted conception of money.

The scientists have little concerned themselves with monetary mysteries. So far as I know, only one modern scientist of repute has troubled himself with the problem.[1] This is very unfortunate, for of what

[1] Professor Frederick Soddy, F R.S., who has pointed out that the conceptions of 'finance' are ridiculous because at utter variance

avail to contribute to physical science, to research, to discovery, to invention, when each successful addition to productive power helps to create fresh unemployments, fresh disharmonies, fresh and insoluble social problems? With money as it is, the scientist who to-day presented us with the means of halving the present employment of labour while doubling its production would be cursed in millions of homes A monetary system leading modern men to believe that science should create work and not save it, is its own condemnation.

The economic consequences of the World War are deemed by many to be a sufficient explanation of 'world depression.' In fact, the War has merely accentuated the problem of modern poverty. The conception that in the early part of 1914 the world as a whole, or any part of it, was in a condition of opulence, is amazing. To take the three 'greatest' industrial nations of that time—the United States, Germany, and the United Kingdom—each alike consisted of a great mass of the poverty-stricken, thinly veneered with well-to-do persons whose enjoyment of comforts and luxuries was necessarily conditioned by the misfortunes, sufferings, diseases, and crimes of the welter of poverty. In America, a large part of the population lived in sordid tenement houses and mean wooden shacks; brigandage and murder for gain were rife in her cities. In Germany, hundreds of thousands of children went barefoot and poorly fed. In Britain,

with the nature of things Thus of interest he says 'I defy any one to find in Nature a process for the spontaneous increment of wealth to offset the human convention of the spontaneous increment of debt at compound interest'

the term 'Labour Unrest' had been newly coined to express a modern version of an old discontent. Yet that Britain of 1914 had known the steam-engine for over two centuries, and possessed a factory system 'well' established before the end of the eighteenth century. The sordid and disgraceful quarters of our industrial towns have not come into existence as a consequence of 'World Crisis'; they existed in those days of 'prosperity,' of 'hooming trade,' of a triumphant 'gold-standard,' upon which we are now invited to look back as upon splendid things lost and in God's name to be 'recovered.'

These pages challenge the conception of 'recovery.' They assert that the conditions immediately prior to the War that is said to be the sole source of our monetary discomfiture, were evil conditions, utterly unworthy of modern men. They declare that a better way must be found. They say it is not true that poverty in what ought to be an age of plenty has resulted from the War, but that it was the problem that confronted us before the War. *They affirm that, if the War of 1914–18 had been avoided, one or more (almost certainly two) commercial crises of a serious character would nevertheless have visited civilization between 1914 and 1933.* These words are written by the hand that wrote, in the first edition of *Riches and Poverty*, published in 1905, nine years before the War broke out, that our modern economic efforts then gave us an attenuated National Income, the poor result of much hard labour, and truly described the nature of that income in the following words:

'A poor stream of ponderable commodities filters through thousands of unnecessary channels, and

becomes the subject of many strange services, each of which claims and gets some sort of reward. By the enumeration of each of these services the total income . is made up The Error of Distribution of the National Income connotes a wasteful and inadequate production '

Never yet has any nation known more than ' a poor stream of ponderable commodities.' Science has been so misused and frustrated that poverty has remained, not in the midst of plenty, as is so often erroneously stated, but despite the achievement of means to produce plenty.

2 Money as 'Illusion'

LET us look at this obsolete money of ours, so variously and truly described as a ' problem,' a ' maze,' a ' mystery,' an ' illusion,' a ' façade.' Money, as we know it, is all these things, and yet it is a basic reality because its inherent faults condition all production, whether of goods or services. It is highly suggestive that a thing so real in its effects should yet be described so truly as a thing of mystery and illusion.[1]

[1] It is of more than passing interest to observe that the word ' mystery ' was used in this connexion as long ago as 1676, when a pamphlet was published called *The Mystery of the New-Fashioned Goldsmiths or Bankers Discovered* In our own day, that acute critic, Sir Josiah Stamp, in his preface to Dr Robert Eisler s *This Money Maze*, writes that ' to clear away what Irving Fisher calls the " money illusion " is the *first necessity* of thinking to-day on social questions ' Professor Irving Fisher is the famous American economist who thinks that money can be reformed by a variable gold dollar governed by an index number

It is well to clear our minds on this point of mystery. Scientific men are accustomed to dealing with matters of real mystery while yet turning their mysterions manifestations to good and practical ends. The mode of motion termed 'heat' may not be thoroughly understood, but we do know that, put to certain uses in certain ways, it will produce certain definite, entirely predictable results.

Not so with what we now call money. Here the thing is not a natural manifestation, but a purely human and artificial device. If the money we employ is a matter of mystery, and if the results of using it are not predictable, the case is one in which science does not avail, because the thing studied is not scientific.[1] We have, in fact, ourselves created an unscientific thing not amenable to scientific treatment. That is why I could fill this book, and indeed a much larger one, with brief descriptions of all sorts of monetary proposals made by professional and amateur economists,[2] from the dethronement of gold to the manufacture of a variable gold dollar, from bimetallism to

[1] So unpredictable are the consequences of the existing monetary system that the financial experts who framed the Young Plan in 1929, representing as they did the best available talent of the great nations, failed to provide for any further fall in prices As a consequence, their Reparation figures, designed to relieve Germany of a considerable part of the Dawes Plan burden, soon became virtually higher than the latter!

[2] The differences among professional economists upon money as now used are exceedingly amusing. Thus upon the root cause of the great fall in prices since the middle of 1929, the Editor of the *Times Annual Financial Review* (Feb 10, 1931), with an admirable sense of humour, printed side by side articles by Professor Gustav Cassel and Professor Lionel Robbins, from which I take the following

a double and differential paper currency, and from controlled inconvertible paper to the periodic distribution of a national dividend of nice new unbacked paper notes. The professors are found to be just as good as the amateurs at this sort of thing. Not fools alone get lost in what one gifted economist has so aptly called the 'money maze,' as witness the fact that he himself is lost in it!

Remembering, then, that if money is an illusion it is one that we ourselves have made, let us not admit that there need be mystery in the matter. Man, who has solved so many recondite problems, and who has dared to plunge the plummet of his thought into space itself, is surely capable of solving so obvious a problem as to enable A, a bootmaker,

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PROFESSOR CASSEL

'A closer examination of the violent fall in prices during the past year leads inevitably to the conclusion that the cause must be sought in an insufficient supply of means of payment. At the bottom of the deficiency is the increasing scarcity of gold.'

PROFESSOR ROBBINS

'1930 will go down to history as the year of the Great Slump. . . . It is fashionable in some quarters to attribute this disaster simply and solely to the shortcomings of the gold supply. . . In my judgment, this diagnosis is thoroughly misleading.'

Or we may quote a delectable passage from the paper on *Public Expenditure and Trade Depression* read to the Royal Statistical Society on April 25, 1933, by Mr R. G. Hawtrey.

'Economists are often blamed for offering discordant advice at a time of crisis, when there is so urgent a need of a clearly defined economic policy. There is without doubt a fundamental difference between those who look forward to continued deflation and seek equilibrium in bigger and better bankruptcies combined with drastic cuts in wages, and those who recommend inflation with a view to bringing prices into equilibrium with wages and restoring general solvency.'

freely to exchange boots for the wares of B, a hatter. If we have built an impassable and most damnable wall between bootmaker and hatter, let us pull it down. If our money is such a sham that hatters are found wearing worn-out shoes while bootmakers go in shabby hats, let us seek a true money amenable to scientific treatment, and yielding predictable results.

Money has become a façade covering good work and bad. It ought to be, but is not, representative of wealth—of commodities. It ought solely to represent those things that are valuable because, in the memorable words of Ruskin, they 'avail towards life.' In actual fact it may and does stand, not only for the product of honest and well-directed labour, but for profit arising from the artful and wasteful manipulation of the products of labour, for the market valuation of things that ought not to be made, for trash masquerading as goods, for false claims upon work created by sheer chicanery and fraud, and for gains the result, not of production, but of the deliberate curtailment of production—the deliberate withholding of wealth from use Thus money covers a multitude of both virtues and sins, the same monetary expressions being used for the valuation of all varieties of human effort.

3. 'Hereby did Barter grow Sale'

THERE is a famous passage in Carlyle's *Sartor Resartus* which may well be quoted here: 'A simple invention it was in the old world Grazier—sick

of lugging his slow Ox about the country till he got it bartered for corn and oil—to take a piece of leather and thereon scratch or stamp the mere figure of an Ox (or *pecus*); put it in his pocket and call it *pecunia*—money Yet hereby did Barter grow Sale, and Leather Money is now Golden and Paper, and all miracles have been out-miracled, for there are Rothschilds and English National Debts, and whoso has sixpence is sovereign (to the length of sixpence) over all men, commands cooks to feed him, philosophers to teach him, kings to mount guard over him—to the length of sixpence'

Too quickly did Herr Teufelsdröckh bridge the gap between cattle-money, having obvious tangible value, and document-money calling for the exercise of Faith in the existence of an Invisible Ox Very true it is, however, that the history of the subject may be summed in the transformation of money, as a standard of value and instrument of exchange, from a most definite, obviously valuable and coveted material object, whether cattle or slave or Bit of Metal, to a Scrap of Paper bearing a Promise

In modern times we may see, as in the Gold Standard countries in 1933 (and as we saw it in Britain before the War), the simultaneous use of (1) tangible gold money (2) paper notes promising to pay gold, and (3) cheques, also promising gold, drawn upon bank deposits largely created as credits (debts) by bankers.

In countries off gold, and using, as Britain has done since September 1931, (1) unbacked paper notes, inconvertible into gold, and (2) cheques promising the payment, not of gold, but of inconvertible paper money, money no longer including an element of

coined metal.[1] This makes no difference to the conception of monetary 'circulation.'

To all these forms of money we may apply the term 'currency.' All of them equally embody the elementary idea of a money of circulation, passing from hand to hand, sometimes quickly, sometimes slowly, acceptable and accepted because commonly believed to represent and to confer purchasing power, and measuring at each remove the price of something, good or bad, sold for gain.

The invention of currency carried with it a consequence of the most momentous kind. When money exists as a thing divorced from production, yet desirable because of its command of production, it becomes itself a commodity, and is freely dealt in as a commodity. The money-changer enters the Temple, and there is no casting him out. Money as a commodity takes charge of the situation, and appears to be the sole means of obtaining the satisfaction of desire. Thus arises a great and pernicious illusion. With such a conception of money, the making of money becomes the most pervasive of human aims. Your bootmaker is no longer making boots, but intent on making money. Equally your hatter is no longer making hats, but intent on making money. Presently, each of them is found complaining that he has not money enough to buy the other's products, even while the existence and mastery of the currency system prevents the direct exchange of a pair of boots for a hat. 'Hereby did Barter grow Sale.'

[1] It is unnecessary here more than to mention our silver and bronze small change It is mere 'token money' and not legal tender for more than trifling payments

No, Thomas Carlyle, let us rather say that 'Hereby did Barter grow Money-Making and Incontinently Disappear from the Minds of Men, with issue that Money took command of work for its utter Damnation, so that the Multitude became hard put to it to win Sixpenn'orth of Sovereignty from Unlimited Power.'

What should be an active and potent instrument of exchange has become, in effect, one to divide industry from industry, man from man, nation from nation. What should be the servant of production has become its master. What should lead men to say, 'Let us exchange commodities for commodities,' has bred the maleficent conception, 'Let us make profit!' What should confirm men in the belief that it is good to produce useful goods and services is lost in the terrible words, 'Let us make money!'[1] It is right to call the imperfect thing that works so much evil an illusion, but let us not forget that it is an illusion working positive harm.

4 The Marginal Life

THE making of monetary gain we commonly term the making of 'profit.' Profit is a margin derived from successfully selling a product for more

[1] In 1843 Carlyle wrote in *Past and Present*, 'Let inventive men consider—whether the secret of this universe does after all consist in making money. With a hell which means—"failing to make money," I do not think there is any heaven possible that would suit me well. In brief, all this Mammon gospel of supply and demand, competition, *laisses faire*, and devil take the hindmost, begins to be one of the shabbiest gospels ever preached.'

money than it cost in money. In essence that is seen to be, not an exchange of products, but a monetary transaction winning a monetary margin. The monetary margin becomes the aim, and everything else has to be subordinated. So arises what we may call the Marginal Life. It is the life we commonly live. We are always on the precarious margin of a monetary existence. What do we make or (only too often) fail to make? Not useful goods and services, but Margin.

I have just said that the making of a monetary margin is not part of an exchange of products. In actual fact and experience, a monetary margin often runs off before it is translated into purchasing power. Thus, each successive financial 'slump' causes the wholesale disappearance of illusive margins, the widespread bankruptcies of individuals and businesses, the calling of the common bluff of the banking system, and the unemployment and social degradation of tens of millions of innocent dependents on margin.

So ridiculous is the marginal system that trifling purchases or sales may and often do have an altogether disproportionate effect upon market prices. Lord Melchett, speaking of one of his own companies with over 40,000,000 ordinary shares, says: 'I have known the sale of a few hundred shares move the price by a shilling or more in 15s., and I have seen the dire results of sales uncovering the position of shareholders with banks, forcing more shares on to the market, thus producing cataclysmic results.[1]

Incalculable and unpredictable results too often follow any authoritative attempt to curb the marginal

[1] *Modern Money*, by Lord Melchett, p. 116.

game The world monetary crisis of 1929–33 affords an illustration of the wholesale destruction of illusive 'values' In 1928 the American Federal Reserve Board, the central banking authority of the United States, entered upon a deliberate policy of monetary restriction to curb an orgy of Wall Street speculation.[1] The policy succeeded as an official monetary campaign against margin-hunting in Wall Street, but it proved to be a case of burning down a house to roast a pig. Wall Street collapsed in the autumn of 1929, and margins went up in smoke. The collapse spread to the commodity markets, and everywhere prices gave way All the world's work became affected, and nearly all the world's 2,000 million hard-working people were plunged into distress Since the summer of 1929, American 'securities' have fallen in 'value' by about £10,000,000,000, while those of Great Britain and the world at large have suffered only less severely. And while ruin was thus widespread, fortunes were made by bear speculators who realized that monetary margin may be acquired by trading in ruin as a raw material, by selling in times of panic what one does not possess.

Farce mixes with tragedy in the Marginal Life It is amusing to observe how valuation by margin runs through society Thus, nothing could be humbler than the sale of a newspaper at a street corner by a boy who ought to be better employed but who has never learned to use either his hands or his brains;

[1] Professor Gustav Cassel tells us, in his *Crisis in the World's Monetary System*, how he warned the House Committee on Banking and Currency at Washington in May 1928 that such a policy might have far-reaching consequences and cause serious depression

who is, indeed, much more ignorant than a child savage. We do not give a very high social valuation to the newsboy and his profit margin, but he who with magnificent enterprise contrives to employ thousands of boys and men to garner him millions of such vulgar fractions, may, as a wholesale collector of margins, become a potentate of high social valuation One sees him ripe for the accolade

So with the 'milk-round.' What humbler trade than that of the milkman, buying for, say, elevenpence a gallon [1] and spending laborious days in retailing (and soiling) pints and half-pints at the rate of say 2s. 4d. a gallon. A big gross margin, but what a life! Let one of us, however, employ many thousands of such humble persons to cry 'Milk-O!' and collect in respect of each poor roundsman a bit of margin, and he may blossom into a joint-stock company of Prodigious Proportions, able to blazon his duly certified aggregate profit margins in a Prospectus, and by monetary means to make an enormous further profit margin at one fell swoop. And if, as a consequence of the formation of that glorious combine, The Associated Amalgamated Dairy Products Limited, the profit margin shows signs of diminution, there are alarums and excursions among the humble ones, and various 'economies' are effected to maintain the concern on a properly business-like marginal footing, the entire unhappy spectacle being a direct consequence of that 'illusion' called money which is yet such a powerful factor in human affairs.

[1] The farmer often cannot obtain a handsome elevenpence A Norwich farmer was recently offered sixpence a gallon, a Scottish farmer (this in February 1933) fourpence-halfpenny!

The City of London has furnished innumerable cases of melted margins The company-promoter has a bad name, although I have never been able to understand why it should be wickeder to buy a business for a million and to sell it for two millions than to buy a lettuce from a market-gardener for twopence and to sell it for sixpence. The Macmillan Committee on Finance and Industry in its Report (1931) had some scathing words on the deluding of the investor—that unhappy creature who seeks margin plus security, and is so often betrayed to folly: 'It is all-important to the community,' they say, 'that its savings should be invested in the most fruitful and generally useful enterprises offering at home Yet, in general the individual investor can hardly be supposed to have himself knowledge of much value either as to the profitable character or the security of what is offered to him. How easily he can be misled in times of speculative fever by glittering—even tawdry—appearances is proved by the experience of 1928, as the following striking figures will show. In that year the total amount subscribed for capital issues, whether of shares or debentures, of 284 companies was £117,000,000. At 31st May 1931, the total market value of these issues, as far as ascertainable, was £66,000,000, showing a loss of over £50,000,000, or about 47 per cent. In fact, the public's loss has been greater, since many of these shares were no doubt sold by the promoters at a high premium Still more striking, perhaps, 70 of the above companies have already been wound up, and the capital of 36 others has no ascertainable value The issues of these 106 companies during that year amounted to nearly £20,000,000.'

The sorry game of margin will not do. Work will never be restored to dignity, or yield results commensurate witb the scientific advance, until money is so changed in character that it becomes truly symbolic of work, truly representative of work done, truly a certificate of intrinsic value, truly something to be universally acceptable because thoroughly understood. There is no need for illusion and maze and mystery. We can dissipate the illusion, destroy the maze, and solve the mystery. We cannot do this, however, by merely playing with the conception of money as a standard of value and instrument of exchange whicb is also a currency and a commodity.

Making goods bas become simple enough, wbether it be growing wheat, or mining ore, or producing manufactured articles. We ougbt not to tolerate the fact that 'making money' has frustrated tbe scientific processes. We know bow little labour is now required in large-scale production. This ought to mean both an abundance of wealth and an abundance of leisure for every one, for it is obviously a simpler thing to distribute goods than to invent the means to produce them. If in practice we find the making of goods curbed by the existing means of exchange, so that most men lack the means to acquire the goods so easily produced, we have an indictment of money as we know it. Clearly, we allow an imperfect money to thwart scientific production.

The American Technocrats produce a host of illustrations of the realities of modern methods of production. In blast-furnace practice one man can produce 4,000 tons of pig-iron in a year. In 1929, the American flour-mills produced 546 million bushels of flour with

the labour of 24,600 men It needed only 92 man-hours per car to produce nearly 6,000,000 motor-cars A plant in Milwaukee employing 208 men can produce 10,000 motor-car frames in a day. A miner can get 20,000 tons of iron-ore in a year. In California, 43 men mine 5,000 tons of lead-ore a day at the Kimberley mine; this is one-seventh of the world's output A farmer, with the latest agricultural machinery, can do in an hour what it took 3,000 hours to do a century ago. Such examples could be multiplied indefinitely Yet in the land which has so successfully learned how to make goods, the making of money has so defeated science that farmers have been driven to barter their unsaleable wheat for clothes, furniture, and other articles Money failed them. The truly difficult part of the problem of poverty, plentiful production, has been solved. The essentially simple part, mere distribution, waits for the reformation of exchange

The Marginal Life necessarily carries with it much more than marginal failure. The marginal reduction of production, given any reasonable system of exchange, would mean no more than a proportionate reduction in wealth In the conditions of unreason that actually obtain, a marginal reduction means loss of the 'profit' (i e. marginal monetary gain) without which 'commercial' operations cannot be continued. Or the same effect may proceed from a marginal *increase* in production reducing 'price' and thereby cancelling profit margin, more wealth thus producing the travesty of monetary ruin! So the marginal system, the aim not to exchange goods for goods, but to 'make money' by making margin, brings on 'loss' and 'ruin' One

cannot attempt to base life upon fictions without loss of life itself.

The exaggerated distress of the whole world in 1929–33 amounts to an all-round contraction of illusive monetary margins. Wholesale prices fell so rapidly in 1925–32 that the great fancy margins of the War and post-War periods were wiped out; at the end of 1932 what cost £100 (wholesale) in 1913 could again be purchased for roundly £100. (This is to speak in lump of an average of the chief commodities) No reality is expressed in these changes; iron remains iron; corn remains corn; intrinsically the world is neither richer nor poorer. It is the monetary expression that has varied in mockery; its utter unreality has cursed the world because it has subordinated the springs of existence to the conception that life depends upon monetary marginal profit. The physical reality is: *The valleys stand thick with corn; we have many inventions and splendid materials; abundance calls to us.* The monetary unreality is: *Prices have fallen and we cannot make monetary profit; we are ruined.* It is well for the world now in travail to ask itself: *Why has the reality failed us; why has the unreality triumphed?*

5. 'Limitation of the Vend'

THE Marginal Game naturally leads to restriction of output to increase or recover margin. Thus, as early as the seventeenth century, the Newcastle

coalowners 'regulated' output to maintain price It was reported to the Royal Commission on Coal of 1870, that as a result of the 'limitation of the vend,' which was applied only to coal sold for domestic consumption, 'English coal was sometimes to be purchased in St. Petersburg at half the price of the same coal in the River Thames'[1] We may thank the coal trade for teaching us the pretty words, 'limitation of the vend' They have gone far.

Margins become precarious as soon as production becomes liberal in relation to monetary demand. It is useless to blame producers for stifling output when purchasing power, as distinguished from human need, is so easily satisfied. Commercial production means production at a margin of profit; when poverty market is glutted by small supplies we hear of 'over-production,' and the vend has to be limited to maintain margin In the case of primary commodities, readily produced in a number of countries, limitation becomes difficult, with the frequent result that prices crumble, margins vanish, and producers are brought to distress and disaster. When abundance is thus punished, it is vain to complain of the individuals who seek to protect themselves by limitation of the vend Indeed, in the cases that most matter, there is no villain in the piece Individuals may and do gain unduly by exploiting scarcity, but the large-scale distresses arise out of the failure of monetary exchange, sometimes accentuated, as in 1929, by deliberate but mistaken restrictions of credit

In our topsy-turvy monetary world, in which margin

[1] See *The British Coal Trade*, by H J Jevons

and not plenty is the aim, language has to be inverted to express commercial logic. The market is '*hopeful*,' we read, because prodnction is *down*, or because restriction has *succeeded*, or because a harvest has *failed*! One takes up the evening newspaper of February 6, 1933, and reads: '*Better Tendency of Copper. . . . Some of the high cost producers in the U.S.A. are preparing to close down*' Or again we read: '*Tin Recovering. . . . More hopeful prospects of new output cut*.' Recently, the chairman of the Federal Farm Board of America was reported as *hopeful* because the American crop was expected to *fall* and because Russia was *short*! Or it is pearls; on October 11, 1932, the leading Japanese pearl cultivator publicly threw £5,000 worth of pearls into a bonfire, in front of the Kobe Chamber of Commerce building, to raise the price of the rest.

In July 1931, Brazil had 20 million bags of coffee in store and a new crop of 15 millions; to say nothing of the coffee produced by other nations. As the consumption of a distressed world liking coffee hnt lacking money is only 20 million bags a year, something had to be done about it. A million hags were swapped with America for 25 million bushels of wheat, no 'money' passing. Some more was bartered with Italy for aeroplanes. Still millions of unsaleable bags remained, and £2,000,000 worth was destroyed. Burning was done systematically at the rate of 14,000 bags a day, until burnt coffee so much offended the public nose that the rest was drowned in the Atlantic to make a weak brew for Father Neptune. The producers of the destroyed coffee are compensated by a special levy upon coffee exported. In 1932 the

burning and drowning continued; it is said that 1,000,000,000 lb. of coffee were destroyed by last June!

Even the amazing story of Brazilian coffee is surpassed by the large-scale operations of the American Government in endeavouring to save its farmers from a ruin of purely local abundance Hundreds of millions of underfed people in the world matched the hundreds of millions of bushels of unsaleable United States wheat, but no power existed to bring them together. Currency, backed by the biggest store of gold ever accumulated by one nation, utterly failed its worshippers and brought them to despair Cotton was in similar case, although in America itself many more cotton goods were needed by millions without money to buy So the American Government set up a Federal Farm Board, and supplied it with funds of £100,000,000 to lift wheat and cotton off the market. By the end of 1931 the Board had bought up 330,000,000 bushels of wheat (for £55,000,000) and 1,300,000 bales of cotton (for £21,000,000) to sustain price, but prices were not to be sustained.

Since the summer of 1932 some part of the great stocks of wheat and cotton have been happily employed to relieve the growing army of American unemployed, now variously estimated at from 10 to 15 millions, and their dependents.[1] The American Red Cross, with its connexions in every town and village of the nation, was charged by Congress with the task of using the State hoards of wheat and cotton to feed and clothe the destitute. Altogether, it appears, 130,000,000 bushels of wheat and 1,300,000 bales of

[1] See the excellent account in the *Times* of April 17, 1933.

cotton have been given to the Red Cross and most efficiently and creditably distributed as flour and cloth. Part of the cotton was bartered for stockings, knitted goods, and other garments. The spirit, not of money, but of barter, runs through the story; not a penny of profit has marred the scheme. After providing for the work up to June 1933, the American Government is still left with some 200,000,000 bushels of hoarded wheat.

There is no 'over-production' of wheat. A recent article of importance[1] had for heading 'Too Much Wheat,' but is it true that the world produces too much of what has been called the aristocrat of the grasses? Do the valleys stand too thick with corn? The world has roundly 2,100 million people and produces roundly 2,600 million cwt. of wheat a year. It appears, therefore, that the world's wheat production (not wheaten flour, but wheat in the grain) is less than 3 lb. per week per head This seems to be not too much, but too little. Too well we know that large areas of the world, including India, China, and Russia, together inhabited by some 1,000 million people, suffer recurrent famines and have never yet known plenty. Not over-production but under-consumption is clearly to blame.

As with wheat, so with tea and rubber and the metals; the world has not enough of these things; yet their producers are driven to the limitation of the vend. Thus also with fruit and fish; too often good harvesting leads to loss and deprivation. We have grown accustomed to such items of news as that

[1] Sir William Haldane and Mr. R. J. Thompson in the *Times* of March 20, 1933.

'sardines landed from 52 boats at St. Nazaire were thrown back into the sea for want of a market.'

Such desperate errors in the workings of a monetary system suggest to some minds that nothing short of world agreement can end them. That is fortunately not altogether true; there are great interim possibilities Without anticipating what is to follow, it may be at once pointed out that, given liberation of production and exchange within each country, it would soon find means to exchange any surplus arising for the surplus products of other nations.

For let us suppose for a moment that Product Money is true, and that, truly applied, it made big buyers of all the British people, so that they could all afford to buy plenty of coffee and to make it hot and strong as they have never yet learned to do. That would rescue a considerable part of the Brazilian coffee from the flames or the ocean, and the Brazilians would be able to respond by buying, shall we say, wireless sets The price of coffee would respond to such buying.

But this is to anticipate! I will only add that the patient reader will be unlikely to find in my proposals anything quite so fantastic as this very brief but quite unexaggerated account of the limitation of the vend. No one could invent anything so grotesque as the monetary facts of everyday life. Those melancholy realities were not invented by any man; they are the inevitable outcome, not of invention, but of the survival of bad habits.

CHAPTER III

THE MANUFACTURE OF CURRENCY

1. MATERIAL MONEY

THE earliest money, we have reminded ourselves, had intrinsic material value. Skins, cattle, sheep, corn, slaves, tobacco, tea—these and other things have at various times ranked as acceptable money The qualities of the metals, and all metals were for long hard to come by, made them peculiarly suitable to serve as instruments of exchange and common denominators of value, for they were rare, covetable, and divisible. So iron, copper, lead, and bronze were employed as moneys. The commoner metals eventually gave place to gold and silver, and in quite modern times gold rose to almost universal monetary sovereignty.

When any particular commodity is adopted as a standard of value, the value of all other commodities becomes 'priced' in terms of the common denominator. *If gold is the standard, then Price is the ratio of Goods to Gold.*

If more gold is produced, while the quantity of goods offering remains the same, then gold will buy less goods and prices *rise*. If less gold is produced, it becomes rarer in relation to goods; therefore more goods must be given for it, and prices *fall*. This is

the Quantity Theory of Money, which may be simply stated thus: '*The price level of a given quantity of goods varies directly with the quantity of money in circulation.*'

The quantity theory is true of every money of circulation, whether gold, or some other currency of tangible material value, or some form of representative money, or immaterial money such as paper money. It is important to bear this in mind in connexion with what follows, for the manufacture of money obviously raises the question what quantity of money should be circulated to serve the purposes of a given quantity of trade?

2. Money of Faith

CHINA used paper money, just as she drank tea, wore silk, and burned coal, long before we knew of these things In England, paper money—paper bearing a promise to pay, money of faith—began with the goldsmiths, who discovered that receipts issued for gold deposited with them became an acceptable money.

From these receipts sprang, we know not in whose brain, the brilliant conception that, having won confidence, a bullion-dealer could issue *paper money bearing a promise to pay gold not in his possession.* So arose the 'banker,' the manufacturer of money.

A neat and profitable game, to possess £100,000 of deposited gold, and to base upon it the lending at interest of money taking the form of, say, £500,000

of paper 'bank-notes' promising to pay gold, in the confident belief that, so long as faith held, not even one-fifth of the holders of the £500,000 of paper would be likely all at once to demand gold. Thus the banker paid interest on a real deposit of £100,000 of gold, and drew interest upon the lending of a ghostly £500,000! Mr. Hartley Withers has termed this process 'the great principle of currency based on mutual indebtedness.' In fact, it is not a principle, but a *confidence trick*.

It is a 'principle' that fails as soon as its essential bluff is called. In the case supposed—not by any means, as we shall see, an exaggerated version of gold-based banking—the banker must fail as soon as more than one-fifth of his paper promises come home to roost. Present more than one-fifth of the £500,000 of paper, and the 'run on the bank' closes its doors. In such fashion, England went off the gold standard in September 1931; she had promised to pay golden pounds sterling not in her possession. So the inauguration of President Roosevelt on March 4, 1933, was celebrated by the closing of every bank in America; the American banks, although backed by the biggest store of gold ever collected by one nation, could not meet 'promises to pay' running to 40,000,000,000 dollars.

Let us bring up to date the working of the brilliant conception of 'promising to pay.'

Taking the position created by the Gold Standard Act, 1925, and the Currency and Bank Notes Act, 1928, the Bank of England down to September 1931 (when emergency legislation suspended the gold standard) made a small stock of gold the basis of a

relatively large issue of so-called 'cash'—paper money promising to pay out largely non-existent gold. The small stock of gold was not coined, but held as bullion. Under the Gold Standard Act, 1925, the Bank of England was directed to 'sell to any person . . . who pays the purchase price in any legal tender, gold bullion at the price of £3, 17s. 10½d. per ounce troy of gold at the standard of fineness prescribed for gold coin by the Coinage Act, 1870, but only in the form of bars containing *approximately 400 ounces troy* of fine gold.'

This meant that the Bank of England was under legal obligation to sell a bar of 400 ounces of fine gold to any person who tendered £1,700 in paper notes. The effect of this legal position was that either 400 ounces of fine gold or £1,700 in paper money would buy exactly the same amount of goods To vary this expression, 113 grains of fine gold and £1 sterling possessed the same purchasing power.

But the legal position amounted to a fiction It established gold as the governor of price, truly, but it also promised to 'any person' a power to buy gold which could not be exercised.

The stock of gold actually held by the Bank of England was roundly £140,000,000. The issue of legal tender bank-notes, however, was roundly £400,000,000 [1] The Currency and Bank Notes Act, 1925, authorized the issue of £260,000,000 of bank-notes backed not by gold but by securities whose nature was left to the Bank of England, forming a 'fiduciary issue'; the balance of the note issue—say £140,000,000—

[1] 'Net circulation' was less than this, owing to the stocks of notes held by the Bank of England and the commercial banks

was therefore roundly backed by the actual gold stock of about £140,000,000. The legal position was that the Bank could issue £260,000,000 of paper backed only by securities, but that for every £1 note issued in excess of £260,000,000 the Bank had to hold £1 in actual gold.

In all, the Bank of England might legally be called upon to supply gold in exchange for 'legal tender' to the extent of £400,000,000. As the gold stock was hardly more than one-third of this sum, the legal obligation to pay out gold could not be met

The legal bluff was called in 1931, owing to a continental panic following the collapse of Austrian and German banks and to panic fears about the British position put in circulation by British *brains*. Continental cash balances in London were demanded in gold, and gold had legally to be supplied. Soon the depletion of the small British gold reserve compelled the Bank to beg the Government to abandon the gold standard. After a frenetic week-end, Parliament put a Bill through all its stages in both Houses on Monday, September 21, relieving the Bank of England of the obligation to sell gold, and the run upon the little stock ended.

By legal fiction, however, about £140,000,000 of gold had been made to do the work of some £400,000,000.[1] In relation to the volume of British trade (small as that volume was in relation to British needs) this £400,000,000 of paper currency (pretending to be the certification of available and purchasable gold) was only less inadequate than the gold stock itself.

[1] For simplification, I neglect here the small issues of notes by the Scottish and Irish banks.

3. Bank Deposit Currency

THIS brings us to the great bulk of currency used in British business It consisted and consists of relatively large bank deposits circulated by the drawing of cheques These bank deposits amounted in 1931 to some £1,750,000,000, constituting the great bulk of the nation's working currency In all, the currency early in 1931 was roundly:

Legal Tender Bank of England Paper Money, say	£400,000,000
Privately manufactured Bank Deposits (not Legal Tender), say	1,750,000,000
Total . .	£2,150,000,000

Thus £2,150,000,000 of currency was built upon a basis of £140,000,000 of gold. Yet all the credit instruments employed, both the notes and the cheques, pretended to be convertible into gold. Any person having the right to draw upon a bank deposit a cheque for £1,700 could change it into 'legal tender'—banknotes—and by presenting those notes at the Bank of England claim his gold bar of 400 troy ounces. This operation could have been theoretically performed £140,000,000 ÷ £1,700, or some 80,000 times, but in practice the gold standard would have collapsed and the Bank of England would have 'broken' very early in the endeavour to translate legal currency fiction into workaday fact. That is why, as we have already noticed, the gold standard proved so fragile in September 1931. It was dethroned by what were in reality very small withdrawals of gold.

The diagram on the following page pictures the edifice of 'credit' currency built upon a little gold in 1931. With 2,150 millions in note currency and bank deposit currency based upon 140 millions in gold, the position in 1931 was that £1 of gold backed £15 of credit.

Bank deposits as truly as bank-notes form 'currency' or 'circulating credit.' The cheques drawn upon deposits are merely instruments of transfer; it is the deposits themselves that constitute currency. A cheque is not legal tender, but it is accepted, if the drawer is of good repute, as convertible into legal tender. The 'deposit currency,' mainly manufactured by the banks, is circulated by cheques, the cheques themselves not circulating.

Bank deposits consist partly of deposits in the ordinary sense, as, for example, dividends paid into a bank and awaiting suitable investment.[1] *For the most part, however, they are made up of loans or overdrafts granted by banks to their customers upon security, or of credits created by banks discounting bills of exchange or purchasing securities.* Thus, while the banks have no legal power to manufacture money which is 'legal tender,' they have assumed the right to manufacture the greater part of the currency in actual circulation.

The amount of deposit currency in existence at any moment depends upon the judgment and policy of the commercial banks; with this proviso, that the

[1] In 1933 a considerable amount of such deposits has accumulated, through the fears of depositors too scared to make new investments. At the end of 1932, bank deposits were nearly £2,000,000,000, or £250,000,000 higher than in 1931.

Privately Manufactured Bank Deposit Currency, Circulated by Cheque, not Legal Tender, but commonly assumed to be convertible into Legal Tender and therefore convertible into Gold

£1,750,000,000

Nationally authorized semi-State Bank Notes, 'Legal Tender', legally but not in fact convertible into Gold

£400,000,000

GOLD STOCK

£140,000,000

Bank of England, acting as the bankers' bank, or 'Central Bank,' can and does put limits to credit expansion. In the words of the Macmillan Committee on Finance and Industry, 'the ability of the commercial banks to grant loans to their customers ultimately depends, under existing joint-stock banking practice, upon the possession of the necessary cash base [1] by the Bank of England. If the commercial banks have made loans up to that percentage of the deposits which they have adopted as a working basis, either they must cease to grant new loans except to the extent that existing loans are reduced, or the cash base must be expanded by the Bank of England. The determination of what is an adequate supply of credit rests ultimately therefore witb the Central Bank.'

In practice, the ten London clearing banks in 1930, the year before Britain went off gold, had, against total 'deposits' of 1,741 millions, 'cash' amounting to 188 millions, of which 104 millions were 'cash in hand,' and 84 millions cash deposited with the Bank of England. Thus their total 'casb' was 10·8 per cent. of their deposits. The 'cash' was not gold, but legal tender Bank of England notes, backed as we have seen by some gold and more securities.

Such a system is purely empirical. It is hardly more than the crudest rule-of-thumb. It admits of very wide variations of judgment in a matter in which error may bring, and has actually brought, nations to desperate conditions of distress.

[1] When the Macmillan Committee wrote these words, the 'cash base' consisted of paper partly backed by gold. In 1933, the 'cash base' is merely inconvertible paper.

No one knows or can know what amount of 'currency,' whether material or immaterial, can give any desired development to a nation's activities. The term 'inflation' is jargon for currency expansion; the term 'deflation' for currency contraction[1] No one attempts to define the proper norm of currency, increase or decrease of which is equally wrong We are reminded of the too British cooks who undertake to spoil any sort of food, from a potato to a truffle, and who work upon the admired principle of mixing some of this with some of that and subjecting the mixture to unknown but variable temperatures. Yet is even this comparison not odorous enough, for a cook at least may be taught a true culinary science, but no one can teach a banker how scientifically to use a system which is essentially unscientific, in matters of currency we are necessarily in a region of 'trial and error.' Hence the frightful American smash of 1929, caused by sudden repentant deflation practised after a bout of drunken inflation. Hence, in Britain, the distress (always, be it remembered, distress merely meaning more distress than the degree of distress thought proper and normal) promptly following post-War deflations made by men who did not and could not foretell the consequences of their own deliberate actions[2]

[1] The word 'inflation' has got into such bad odour through the mad printing of paper money in Europe during and after the War that those who preach it as a gospel in 1933 have coined for it a new jargon—'reflation.'

[2] It is well to describe the effects of monetary policy in 1920–21 in the words of an ex-Chancellor of the Exchequer, Mr Reginald McKenna, Chairman of the Midland Bank, speaking in January 1923, he said

It avails nothing to blame bankers as individual exponents of the art of currency manipulation. The system itself is to blame; it is hopeless.

The essence of 'currency' is 'circulation.' Apart, therefore, from the inherent and insuperable difficulty of arriving at a reasonable working ratio of currency to material production, or of currency to material product plus services, or of currency to the monetary valuation of every sort and kind of dealing, there is the problem of *velocity of circulation.* A unit of money may remain out of circulation, or it may circulate slowly, or it may pass rapidly from hand to hand. A mood of confidence, or a holiday, causes many transactions which otherwise would never take place. There is sound sense in the popular belief that it is good to 'make the money circulate'; it is the expression of truth. Thus a given quantity of currency may at different times serve a very different quantity of trade. When circulation gains velocity through confidence or speculative fever, a real 'inflation' takes place; equally it is true that a diminished velocity spells a real 'deflation.'

Conscious, deliberate inflation, breeding higher prices, confidence, and speculation, multiplies currency not only in the expansion of bank-note money or bank deposits; it causes also increase of velocity.

'The Bank-Rate, which had been raised to 7 per cent in 1920, remained at that level for a year. . . . By the autumn of 1920 trade showed such a serious decline that we might have expected a lower rate, but the exigencies of deflationary policy demanded a continuance of dear money. Unhappily, employment decreased month by month as this policy was enforced. In April 1920 we had 348,000 unemployed, by March 1921 the total of unemployed had risen to 1,506,000.'

Deliberate deflation, breeding lower prices and depression, contracts currency not only by diminishing the quantity of credit instruments in circulation, but by decreasing their velocity of circulation.

4 Currency without Gold Basis

WHEN we examine the edifice of credit built upon a small basis of gold, as it existed prior to September 1931, and as illustrated in the diagram on page 36, we are not surprised that in practice a gold basis can be altogether dispensed with So great is the prestige of gold, however, that the gravest fears were entertained at the prospect of abandoning the gold standard The B B.C, on September 8, 1931, gave opportunity to a well-known economist [1] to sound

[1] Professor Henry Clay Here are some of his observations upon the occasion mentioned

'If England went off the gold standard the first result would be a flight from the £ This attempt to dispose of sterling would immediately force down the value of sterling in terms of the other currencies for which it was being sold The fall would be far below any figure justified by the comparative purchasing power of sterling and other currencies because a flight implied panic, and panic sales were not restrained by rational calculations Any fall in the value of sterling would inflict a shattering blow to credit throughout the world The blow to confidence, the feeling that the most stable point in the monetary world had shifted, would be even more damaging than the actual losses of foreign depositors The failure of England to maintain the value of sterling might so shake confidence that credit generally came into disrepute and banks in every country became subjected to a run. . . . It might so undermine confidence that exporters in other countries would refuse to accept payment in sterling on any terms . . .'

Which again goes to show how unpredictable are the consequences

the alarm, but thirteen days later the dreadful deed was done. The small gold basis was removed as a support for British bank-note and bank deposit currency; it remained, however (and this is important), as a support for sterling in the foreign exchange market.

Deprived of its gold base, what is sterling? It is a scrap of paper bearing a symbol whose meaning varies, whose value may be more or less. This does not prevent our financial rulers in printing one of the neatest jokes ever perpetrated in cold ink Here is the brief wording of the current Bank of England £1 note.

BANK OF ENGLAND

I Promise to pay the Bearer
on Demand the sum of

1
POUND

ONE POUND

London

For the Gov^{t} and Comp^{a} of the
BANK OF ENGLAND

£ ONE

B S. Catterns
Chief Cashier

of any action taken in the employment of money as we know it. Sixteen months later, Mr Reginald McKenna, Chairman of the Midland Bank, speaking to his shareholders (January 27, 1933), remarked: 'We have had experience now of sterling divorced from gold for over sixteen months, and nothing catastrophic has happened.'

Prior to September 20, 1931, the words had some meaning, for upon production of 1,700 such promising bank-notes the Governor and Company of the Bank of England were under legal obligation to pay out a bar of fine gold. Now, however, the 'I promise to pay' means nothing. If one took a £1 note to the Old Lady of Threadneedle Street and demanded 'the sum of One Pound,' she could only curtsey and hand us back our scrap of paper; or perchance ask us politely if we would like a nice new one instead!

What, then, has become of the £1 sterling? What determines its value? At home that value means *what it will buy*. Abroad, that value means, for any particular country, *what amount of the currency of that country it will purchase*

The chief determinant of the value of an inconvertible paper currency—paper money, that is, which cannot be converted into gold at a legally determined rate—is its *internal purchasing power* Other factors operate, truly, including the relation of import to export trade, the balancing of the budget, speculation, &c, but the governing factor is domestic purchasing power This fact accentuates the difficulty of deciding what quantity of paper notes and credit currency should be manufactured at any given time Other things remaining the same, the more currency the higher prices; the less currency the lower prices. The quantity theory of (circulating) money is seen to be very true With the adoption of unbacked paper money, the responsibility and difficulty of controlling credit increases, and the decision of responsible banking authority, attempting to solve the insoluble, is only too likely to be ultra-conservative.

In its control of credit, the Bank of England works in 1933 just as it did when its paper was (partly) gold-based. Its bank-notes, mere scraps of paper, inconvertible into gold, are the commercial banks' 'cash.' Their quantity ultimately governs the manufacture of circulating credit, drawn upon by cheque.

The public at large is entirely ignorant of these processes, and I find that few men of business know the true meaning (or absence of meaning) of the 'promises to pay' they commonly handle. Well may those who know speak of a 'money illusion'; they would be justified in adding the adjective *silly*. The wonder grows, not that the business works badly but that it works at all.

'I often say,' said Lord Kelvin of things physical, 'that if you can measure that of which you speak, you know something of your subject; but if you cannot measure it, your knowledge is meagre and unsatisfactory.' The condemnation of currency is that its workings defy measurement, with issue that the results of using it, or of attempting to modify it or control it, are unpredictable. The claim made for Product Money is that it is precisely measurable, and that its issue and employment have a proper scientific relation to physical reality.

CHAPTER IV

POVERTY MARKET

1 POVERTY MARKET NOT DUE TO 'WORLD CRISIS'

I HAVE already challenged the current talk of 'recovery,' and suggested that the use of the term prompts the inquiry *recovery to what?* The truth on this head was clearly demonstrated before the War, in years that witnessed what commerce had found it possible to do with the magnificent equipment provided by science. I recall words I wrote in 1914 and see no need to vary them now 'We commonly entertain such exaggerated ideas of the production of wealth in our time that it is difficult to realize that the truth about a modern industrial State is that, although it has been armed by science with extraordinary powers of production, it produces little The little that is produced is distributed very unequally, and the net result is a community of poor people veneered with a thin layer of the well-to-do To make this statement complete as a broad generalization of the facts, it is necessary to add that no small proportion of what production there is consists either of rubbish or of things that had better not be made.'

This passage is from the first paragraph of an article entitled *Poverty of Production*, published six

months before the War broke out.[1] Britain, in common with the other great industrial countries, was then enjoying whatever of enjoyment was to be derived from a trade boom of such admired dimensions that international commerce had just registered the 'biggest' figures ever known. The well-to-do, if not the pawns of commerce, were well assured that there never had been such times. Yet my *Riches and Poverty* had recently demonstrated (1910) that there was only too much truth in the celebrated utterance of Sir Henry Campbell-Bannerman that 'about 30 per cent. of the population is living in the grip of perpetual poverty,' that our boasted wealth was no more than a thin stream of commodities, that unemployment or short-time always existed in greater or less degree, and that the national capital was as to two-thirds held by a number of people so small that it formed a negligible fraction of the population.

Putting the words quoted to proof, I examined the then lately published results of the first Census of Production, taken in another 'boom' year of trade, 1907. We found that the United Kingdom, then, of course, including all Ireland, had some 7,000,000 men, women, boys, and girls, including salaried persons, engaged in industrial employment, the number of men so employed, counting as a man all males aged eighteen years and upwards, being only 4,250,000! This figure, moreover, included the million miners. Yet the aggregate population of England, Wales, Scotland, and Ireland at that time was 44 millions.

We also found that this very inadequate number of

[1] *The Contemporary Review*, February 1914 The substance of this chapter appeared in the same publication in the present year.

industrial producers produced so little that *if all the material goods made for retail consumption were equally divided among the entire population, the entire population would remain in abject poverty.* The means of comfort bad not been achieved in a year of so-called ' boom trade '

As to poverty of production was added what I called in *Riches and Poverty* the ' Error of Distribution,' we had the demonstration of a condition of poverty which called shame upon the methods of frustration applied to science.

Well we may repeat · *recovery to what?* There had been no great war in the world for long years preceding the days of those official revelations of a pervading poverty The gold standard was in perfect order, working, according to the best economic authority, like a charm. International trade was hailed as enormously successful. There was no wicked United States cornering the world's gold and demanding the payment of gigantic war debts; indeed, so far from receiving interest, the United States was a payer of interest, while the statisticians of John Bull complacently regarded oversea investments, credibly estimated at £3,000,000,000, setting up a stream of one-way traffic joyfully flowing, a second and better Gulf Stream, towards the British shore.

Thus we remind ourselves that so far from mere recovery leading us back to economic bliss, the deplorable social conditions that existed when the War broke out were consistent with prolonged peace and all the commercial blessings which are spoken of to-day as though they inevitably produce wealth, prosperity, and regular employment We are in danger of forgetting that it was in 1911 that Mr.

Lloyd George wisely gave us the first Unemployment Insurance Act.

Upon detailed analysis, the Census of Production of 1907 gave us facts closely corresponding with the results of social observation. If the whole of the wooden furniture made in that year represented no more than about 20s. for each British family, it was the statistical expression of the poverty-stricken character of the average British home. If the building of that year of splendid trade and worshipful prosperity amount to less than 19s per head of the population, this was to express the continued existence of dwellings nearly always inconvenient and uncomfortable and often the direct cause of disease, incapacity, and lingering death. If upon the examination of cotton output or woollen output we found the people too poor to buy more than a fraction of what was needed for comfort, we were but compiling the aggregates of denial, the grand totals of almost universal want.

It is necessary to say these things very plainly, for memories are short, and it amazes me to see writings which mean nothing if not that the mere restoration of the thing that was, the mere recovery of a former economic condition, is all that we need set before us as our aim and endeavour. The fact is that the condition of the masses of the people in post-war 'depression' is if anything rather better than it was in that glorious year of trade, 1907, or that year of even greater marvels, 1913, when British exports made record. The social legislation of 1906–14, as enlarged since the War and combined with the payment of war pensions, has somewhat mitigated the error of distribution to which I directed attention in

Riches and Poverty in 1905. The pre-War darkness is a trifle less intense; the social lamps that have been lighted remind the observer of the effect of the safety-lamp that one carries in the depths of a coal-mine—it makes the darkness visible

2. Poverty Market in 1930

IT is well to bring up to date the facts relating to production The preliminary reports of the Census of Production of 1930 have been published; they show in trade after trade an output gravely inadequate, however distributed, to provide comfort for our people.

The report, relating to Great Britain only, covered the whole of the industrial work of a population then numbering roundly 45 millions, save and except the output of the very small firms employing fewer than ten persons The examination embraced industry in its widest sense, from coal to ore, from iron and steel to cotton goods, from leather to earthenware, from paper to brassware, from ships to toys, from locomotives to mousetraps, from electricity to lemonade, from bread to newspapers, from cigarettes to confectionery. Due allowance was made for the fact that industries serve each other, so that output was not counted twice over So computed, it is shown that in 1930 the aggregate of British industrial output was valued, at place of production prices, at £1,431,800,000. Let us bear in mind that the year 1930 was one of falling trade consequent upon the collapse in America at the end of 1929 Nevertheless, in 1930 trade was

much better than it is now, and the unemployed numbered nearly two millions as compared with the nearly three millions of 1933.

To make the output figure complete, we may add, basing ourselves upon a former official inquiry into minor producers, an estimated sum of 80 millions for the small firms not included in the 1930 investigation, and so arrive at £1,511,800,000 as the aggregate for all firms producing, large and small. Thus the industrial output of the 45 million people of Great Britain in 1930 amounted to about £34 per head, this figure including capital goods, goods for repairs, goods for retail consumption, and goods for export.

It should not be imagined that this £1,511,800,000 represents net profit—the margin hunted for division among shareholders. In the words of the official definition, 'it represents the value created by the industrial processes, and constitutes the fund out of which wages and salaries and all such charges as rent, depreciation, selling expenses, &c., have to be provided as well as profits.' The wage and salary fund is very much smaller, so small that the 'earnings' inquiry reviewed in the succeeding chapter need not surprise us. 6191

3 Only One in Three a Producer

NOW let us see how many of the British people were employed in making things in 1930. The aggregate for the big firms was only 6,784,100. Adding an estimate of 450,000 for the very small firms excluded, we get an aggregate of 7,234,100 as the

number of people engaged in production in 1930. This figure, we do well to remember, is made up of men, women, boys, and girls, and includes about 800,000 miners. It includes not only the manual workers, but also 700,000 persons forming the administrative, technical, clerical, and advertising staffs The only other productive industries not included are agriculture and fisheries; these, as we have the misfortune to know, employ a small and diminishing fraction of our population; we have no definite figures for 1930, but we may perhaps put the number at 1,100,000. This gives an aggregate of 8,434,100 productive workers

Now the number of persons in Great Britain engaged in all sorts of occupations for gain is roundly 21 millions. So we get the astonishing, the accusing fact that *little more than one in three of our working people are engaged in productive industries.* When every allowance is made for useful services, whether in transport or education, protection or amusement, it is surely matter for very serious consideration that it should occupy *two out of three* workers to deal in or move the output of the *one in three*, or to perform other services for the community.

The picture of British work is one which may be truthfully described as including far too little of useful production and far too much of useless, ill-directed, or perverted service. To this it is unfortunately necessary to add that no small proportion of the material producers merely waste their time upon things that had better not be made, such as manufacturing an electric sign to deface a thoroughfare, setting up the type of the fiftieth report of a crime

to print which is to breed crime, constructing an ugly, comfortless house with soft bricks and sappy timber, making imitation furniture for the hire-purchase system, making bottles or boxes or tins to hold devitalized or extravagantly priced foods or useless or injurious patent medicines,[1] or in some other way contributing to the output of waste.

Let us pass from the melancholy aggregates to some of the details.

4. Humility in Consumption

FURNITURE is a test case, for nearly the whole of the British output is consumed at home. We find that in 1930 the furniture of every sort and kind made in Great Britain, including wooden furniture, upholstery, bedding, office furniture, theatre furniture, &c., was worth £30,000,000 at place of production prices. Relating this to the roundly 11 million homes

[1] *Secret Remedies*, a Report by the British Medical Association, shows how a farthing's worth of ointment or half a farthing's worth of aloes, ginger, and soap is sold for a shilling. Titles have been conferred upon several successful vendors of such stuff. It is questionable, however, whether the sale of 'patent' medicines is so injurious as the increasing preparation of preserved foods, sold at extravagant prices. The British town-dwelling population, four-fifths of which lives in urban districts (nearly half the urban population being crowded on seven small spots forming a negligible fraction of an empty country), having lost the traditional lore of mothering and cooking and common-sense handicraft, is increasingly resorting to the 'tin,' the costly contents of which waste small incomes upon poor food. Statesmanship consents to this waste of life and labour instead of organizing the supply of the vital elements of a proper diet.

of Great Britain, we get an average of about 54s. a home, but as the aggregate includes not only furniture for private houses but the whole of the equipment made for business premises, places of amusement, &c, the figure for domestic use is very much less than this. Yet here we have a trade pushed by a thousand special devices, including the free application of that last confession of monetary failure, the hire-purchase system, worked with the aid of insurance offices, advertising, and a host of unfortunate clerks. A large part of the furniture included in the official aggregate is rubbish, dear at any price, and representing the cheated expenditure of poor people denied proper opportunity of getting any decent value for their hard-earned money *It is probably true* that not half the homes of England contain £30 worth of furniture apiece.

We should not put the case too high if we stated that our 11 million homes could readily absorb, each of them, hundreds of pounds' worth of goods. If we put the call no higher than £300 per home, there would be a demand upon the furniture trade for £3,300,000,000 worth of furniture We have before us the possibility of a gigantic furniture trade contrasted with an industry the output of which is officially shown to be about £30,000,000 in twelve months

As with furniture, so with houses. The value of the dwellings erected in 1930 is ridiculously small when related to population. The returns made by builders *employing more than ten persons* show that in the year about £16,000,000 of dwellings were erected with the aid of public funds, while other

residential houses, shops, offices, and hotels figure for roundly £56,000,000 more. As the small jobbing builders, whose work is not included in these figures, mainly do little new constructional work, we may neglect them. We see that the aggregate construction of new dwellings in 1930 cannot be precisely stated, hut is ohviously very small. There is unfortunately no doubt whatever that the provision of new homes did not, in 1930, amount to more than ahout 20s. per head of the population, so very weak is the frontal attack upon the disgraceful conditions of British housing.[1] Yet, as we know so well, the huilding of little dwellings, like the provision of ruhhish furniture, is specially stimulated in our country. Inahility to rent houses has forced hundreds of thousands of small home-makers to purchase homes through huilding

[1] Few of us have any close acquaintance with the conditions of life in many cities, and there is, I think, a widespread impression that bad housing is mainly to be encountered in great industrial centres I suppose that I have inspected more British towns than most people have had opportunity to do and my verdict is that unhealthy conditions are general No doubt the mass of slumdom is situated in the seven great town groups, in which are concentrated half of the British urban population, but bad or poor housing is a commonplace in almost every district The isolated cottage may be, and often is, as unhealthy and uncomfortable as the tenement house in Glasgow, Hull, Liverpool, or London The industrial towns are full of examples of crowded and uncomfortable dwellings, long ripe for demolition The mining areas vary greatly, some of the examples I have inspected are grievously bad Of Oxford, the Rev. C M. Chavasse had this to say in April 1933 'When I came to be a vicar in Oxford I was appalled to think that the cathedral had stood opposite a church crammed with Evangelicals who went down stinking alleys taking jellies and flannel petticoats to people who were forced to stew in the stink of these places Never once had they thought of clearing them away. They are a blot on the name of Oxford.'

societies. This active stimulation of the building trade fails to do more than produce an output trifling in relation to the national need for re-housing. As for the ugly houses built by speculative builders, the rise in the price of building materials has given us a new and worse interpretation of the term 'jerry-building.'

Apart from dwelling-houses, an enormous amount of new building needs to be done. In 1933 there is much belated writing and talking about slum dwellings. It is forgotten that we also have slum factories and workshops and railway stations and shops—and even schools! Nearly 1,500 State schools are insanitary or injurious to health, or unfit for their great purpose.

This noble craft of building, what have we made of it? It is a trade, for the most part, of casual employment; in which the skilled and unskilled alike pass from employer to employer, turned off at a moment's notice to find a fresh job if they can. Little wonder that the men resisted 'dilution' after the War; I recall with shame the assurance I myself fondly gave to a bricklayer that 'things would be different,' and that he could safely consent to the policy of dilution. Wages account for about a third of building costs, yet we see 'high wages' blamed for high building prices. The truth is that dear money frustrates the industry. The builder has to pay high rates of interest; the speculative builder up to 7 per cent or more!

To pass from houses to the people who live in them, let us examine the clothing of a great Imperial people, charged with the destinies of a quarter of the world.

The woollen and worsted trades give us another revelation of average poverty. In 1930 every sort and kind of British wool manufacture produced goods valued at £112,000,000, of which £37,000,000 was exported. In the same period Britain imported foreign woollen stuff worth £14,000,000, so that the British home consumption was roundly £89,000,000. This figure duplicates certain forms and therefore exaggerates the consumption, but we may neglect that. The inhabitants of a country which has special need to buy warm woollen clothing spend less than 40s. per head a year upon woollen and worsted goods of every sort, including carpets and curtains and blankets and upholstery, and what is bought not only for domestic but for all other purposes. Here again is grave indictment of modern production as applied to the preservation of health and life. If 11 million families made the modest call of £30 a year for woollen goods, we should get an aggregate expenditure of £330,000,000 a year.

Thus also it is if we make the test by china and earthenware. In 1930 the home consumption is shown to be roundly £6,000,000 worth, or less than 11s. per household per year. This, in relation to products of a fragile character, is astonishing. Our potteries receive from British households an average call of only 2½d. a week for every kind of china and earthenware, including both ornamental and utility goods. Thus one of the most ancient and honorable of trades is so little developed among us that it plays a quite insignificant part in our economy. It employs, including managers and clerks, only 32,000 men and boys and 34,000 women and girls.

The glass trade tells much the same story. The 1930 consumption was about 4s. 6d for each household. Or the test may be made by books The wholesale value of the printed books we produced in 1930 was just under £7,000,000 — little over 12s a household, or about 3d. a week

I must content myself with one further illustration; it is of national importance Great Britain has magnificent coal resources If the Fortunate Island is damp, it has in plentiful supply the means of combating damp It can set its coal against the wet, and make a dwelling-house warm and comfortable in any weather At the present time we are producing coal at the rate of about 200 million tons a year Of this we are exporting 30 million tons, together with 13 million tons for ships' bunkers, leaving 157 million tons for home consumption This serves a host of purposes It is burned under boilers to produce steam It is turned into electricity It is converted into gas and coke and by-products which become raw materials of many industries It is burned on the domestic hearth, and more rarely it is used to heat a domestic heating system

Our 11 million households, adequately warmed, whether by burning coal in grates or stoves, or by coal-gas fires, or by electric heaters using current derived from coal, or by radiators depending for their temperature upon coal-burning, and having proper provision for cooking and lighting, would demand at least two tons of coal a month per household That would mean a call for coal for domestic purposes alone of 264 million tons per annum, yet as we have seen,

the total home demand for all purposes is only 158 million tons. Thus we are revealed as a people without the wit to keep ourselves warm Rheumatism is so prevalent that dealing with it may be described as a great national industry.

Let it be written, for it is true, that since the War we have reduced coal-mining employment from 1,200,000 men to 780,000 men, while we have raised the number of workers in the distributive trades to 2,000,000 We are paying unemployment benefit to hundreds of thousands of deteriorating and hopeless miners, even while we shiver in a climate which often boasts seven months of winter.

The large-scale getting of coal in Great Britain dates from the middle of the eighteenth century. We have been getting coal with the aid of steam power for two centuries, but still we have not discovered how to liberate production by giving consumers the means to buy.

Science has succeeded beyond imagining. The work of the modern physicist has become miraculous How read the light emitted long ago from Sirius, and from that light deduce the chemical composition of the star? A thing, one would have said, beyond human accomplishment, but it is done. How warm a dwelling-house for the comfort of a British family? A simple thing, to be accomplished in many ways, but it is not done; all that commerce has to offer the majority of our families for the warming of their beds is a supply of absurd hot-water bottles.

The reproach becomes greater when we remember that the great mass of ideas is no longer personal property; it is freely at our disposal. If the engineers

and chemists, living and dead, have laboured so largely in vain, it is the fault of a society which denies the producer the power to buy. No sooner do the wheels get to work than they glut a home market which possesses no adequate means of payment.[1] Poverty market proving so inadequate, commerce turns its eyes abroad and complains that export markets are contracting. There are no eyes for the home market—for the 45 million inhabitants of Great Britain These are by use and custom relegated to an accepted position of inferiority in consumption So freely is this position recognized and accepted that the masses themselves do not realize what is within their power They are so accustomed to humility in consumption that they accept it as inevitable that the means to buy freely should be possessed by a very limited class A decently dressed 'working-girl'—the amazing implications of the term!—is held to be 'aping her betters!' A judge on the bench has been known to rebuke one of the *relatively* few useful members of society for wearing pretty stockings!

We have indeed schooled our people in poverty and taught them their 'economic place.' The lesson, so false and so base, has been thoroughly well learned. Until it is unlearned, the machines will be erected in vain; the few masters of our civilization, deluding themselves with the belief that they can produce

[1] We repeatedly see economic gluts referred to as though amounting to a new phenomenon caused by the 'world crisis' Fourier, the French Socialist, wrote over a century ago of the '*crise pléthorique*,' and explained it in words that still hold good Napoleon girded at it

without providing for consumption, will remain insecure, hoping for 'better times' and 'booms.' These, when they arrive, represent trifling spurts in a race in which all the runners drag intolerahle chains.

CHAPTER V

MASS PRODUCTION FOR MASSES UNABLE TO BUY

1. The Poor Earnings of 1931

A HUNDRED years ago, Napoleon dictated to Las Cases at St Helena some words of understanding as true to-day as when spoken 'Foreign trade,' he said, ' ought to be the servant of agriculture and home industry, they ought not to be subordinated to it ' Long years after the dying prisoner dictated his memoirs, I found myself unconsciously plagiarizing this utterance when I wrote that—' *We should look upon international trade as the servant of national trade and not as its master.*' [1]

Napoleon could see a subject in its entirety, and he ever spoke with contempt of the lords of money who sought wealth in the exportation of loans to gain interest, and of producers searching abroad for markets while neglecting the masses of the home country.

It is demonstrably true that Britain, fortunate in the possession of coal, and possessing the best naturally endowed power workshop in the world, has greatly gained by foreign trade It is forgotten that it is no less true that gigantic sums have been squandered by

[1] From *The Accountant*, October 15, 1932, p 479.

Britain in foolhardy foreign lending.[1] To-day we are faced with a world situation in which no overseas loan can be said to be reasonably secure. Too often Britain has exported the means of building at home the true wealth and happiness of her own people, forgetting the true observation of Adam Smith, that an exchange within a country is doubly fruitful to its economy. For too long the masses have been regarded as producers of goods deemed too precious for their own consumption, even as when, in the building trades, the raw materials are almost entirely native. In the last chapter I recorded the reaction upon production of what I have called humility in consumption. We can obtain further light upon under-consumption by considering the 'error of distribution' of wealth as illustrated by incomes and by the astonishing records of capital accumulation.

The Ministry of Labour has just performed a great service by ascertaining the actual earnings of large sections of British workers at the end of 1931. The report on the subject is based on inquiry forms which brought in about 62,000 effective returns, mainly from concerns of the larger sort employing ten or more workpeople. The employers were asked, *inter alia*, to show how many workpeople they employed in the week ended October 24, 1931, and their actual earnings as distinguished from rates of wages. Thus we obtain authentic information upon power to consume.

Let us begin with the textile industries. We find

[1] Sir Arthur Samuel, M.P., sometime Financial Secretary to the Treasury, speaking on June 17, 1933, said that, when in office, he had found that England had lost £2,000,000,000 in foreign loans between 1860 and 1929.

that in that week of 1931 the average male cotton operative earned 45s. 3d.; the average female, 27s. 3d. In woollen and worsteds, the male average was 49s. 4d; the female, 27s 7d. In silk and artificial silk, the male figure was 60s 1d.; the female, 26s. 7d. In hosiery the males drew 58s. 8d.; the females, 30s. 3d.

It is well known that the textile industries are mainly manned by women, so that the figures for female earnings form by far the most important part of the statement just made. So true is this that if we take the average earnings of both sexes, we get the following uncomfortable returns: cotton, 34s 6d.; woollen and worsted, 36s. 9d.; silk and artificial silk, 39s 10d.; hosiery, 36s. 6d.

Next let us turn to the clothing industries. In ready-made and wholesale bespoke tailoring, the males earned 54s; the females, 25s. 3d. In dressmaking, the males drew 57s. 6d.; the females, 28s. 9d. In skirts, blouses, underclothes, &c., the males earned 52s.; the females, 25s. 6d. In ready-made boots and shoes, the males earned 52s. 10d.; the females, 31s. 3d In glovemaking, the males drew 55s. 10d, and the females, 23s. 6d. In laundries, the males earned 46s 6d., and the females, 25s. 2d.

In these trades, also, females are mainly or largely employed, and the average earnings per person were therefore very low and as follows: ready-made and wholesale bespoke tailoring, 31s. 10d.; dressmaking, 29s 7d. Shirts, blouses, underclothing, &c., 27s 5d; ready-made boots and shoes, 43s. 11d.; glovemaking, 35s. 3d.; laundries, 29s. 1d.

Now let us pass to the metal industries, and as in these males are mainly employed I give the male

earnings only: iron and steel smelting, rolling, &c., 54s. 11d.; tinplates, 62s. 2d.; light castings, 52s 5d.; engineering, 52s. 6d.; shipbuilding, 51s. 10d.

In the building trade, the average male earned 58s. 6d.; this in an industry visited by much seasonal as well as cyclic unemployment. In brickmaking, the males came out at 50s. 9d., the females at 24s. 5d. a week. In chemicals, the males earned 59s. 5d., the females, 27s. In paper, tbe males drew 57s. 4d., the females, 20s. 4d.

Even if we look upon these figures in the most favourable light, and take account of the fact that there is often more than one wage-earner in a family, how poor a market is made by the spending of these wretched sums! Rent has to be found, and fuel and light and fares, before there is a penny to spend on those manufactured articles which are so easily produced and so difficult to sell. Indeed, how apparent it is that even if the figures were doubled or trebled, the possible market would still call for a small fraction only of what we possess the power to produce in abundance. And the figures given, of course, are flattering when compared with the earnings of agricultural labourers and others.

Moreover, since 1931 wages have fallen again. The Ministry of Labour reports that, in 1932, 1,949,000 wage-earners lost £249,200 a week; there were other unrecorded losses

What we have examined are for the most part the earnings of the aristocrats of labour, including the skilled men working in our noblest industries. When a marine engineer takes home 46s. for a week's work, what virtue has 'mass production'?

If we pass to the records of the worst paid trades, we realize the need for a further extension of the Trades Boards Acts, passed not long before the War, in years of normal 'peace and plenty,' to mitigate the worst abuses of sweating by enacting the minimum wage *in certain scheduled trades* The Ministry of Labour has just made special inquiry into the Sheffield cutlery wages It is shown (*Ministry of Labour Gazette*, December 1932) that of the adult male time-workers, 14 per cent. get less than 10d. an hour, 51 per cent. 10d to 1s 3d. an hour, and only 35 per cent over 1s 3d an hour. Of adult women time-workers, nearly 54 per cent are rated at less than 6d. an hour, and nearly 27 per cent. at 6d to 7d an hour. Of the women time-workers aged 18 to 20, 27 per cent. receive less than 4d an hour, and 36 per cent, 4d to 5d. Turning to the piece-workers, a quarter of the males earn 11d an hour or less An official inquiry into the wages in the fustian cutting trade revealed figures even worse than these; adult women hand-cutters, who received 5½d to 6½d an hour in 1930, have suffered two reductions of 12½ per cent. since that date!

So low is the remuneration of many British wage-earners that it sometimes *becomes fatal to clear a slum*! At the last meeting of the Section of Epidemiology of the Royal Society of Medicine,[1] Dr. G C. N. M'Gonigle, medical officer of health for Stockton-on-Tees, showed that the removal of families from a slum area to an almost 'ideal' Council estate in 1929 had raised the death-rate of the removed families! Seeking for the

[1] See report in the *British Medical Journal*, March 18, 1933 See also the evidence of Dr G P Crowden in the *Lancet*, 1932.

reason, he had found it in the fact that the higher rentals of the decent homes had left the late slum-dwellers with not enough money to buy food. The average slum-rent had been 4s 10¾d a week, whereas the Council dwellings averaged 8s. 10d. Analysis of the food purchased after paying the new rents showed serious deficiency in protein—'the proportion of the budget left over for food was obviously too small' Some of the unemployed in the Council estate could only spend 2s. 10½d. per man per week on food. Then, in the name of scientific progress, what could they spend on goods?

Of what avail the Robots, hungry for material, that have power to pour out commodities with a minimum of human exertion? How ridiculous the efforts of the advertising firms who compete with each other in a poverty-ridden market! It pays to advertise, urges the Press, as it shares large gross margins with producers struggling for customers Indeed it is true that in many trades one must advertise or perish because of the very poverty of custom, but advertising cannot widen the narrow dimensions of the home market; all it can do is to decide which advertiser shall get most out of the scramble for petty custom. That is to say nothing of the very important consideration that the trades of advertising employ and waste an enormous amount of labour and material, no small part of which serves to litter and despoil town and country.

It is impossible to exaggerate the waste of what ought to be productive labour in the endeavour to sell in a poverty market. The number of persons employed in what is humorously called distribution

constantly rises as the machines, ever increasing their productive power in a market of strangled exchange, reduce, in ratio to population, the number of productive workers. Unable to find better employment, men *and women* by the hundred thousand are degraded as touts sent from door to door to solicit orders for goods, the prices of which have to be loaded with huge margins to cover the extravagant costs of the process

The very poor are perhaps the chief sufferers by this dreadful game; not infrequently the inhabitants of some dark tenement house in a sunless by-street are indebted to two, four, or even six tallymen for instalments due upon petty insurances and rubbish simulating the shape of perambulators, gramophones, wireless sets, cheap trinkets, and even Bibles Most of the stuff thus sold, including the insurance policies, is worked off at extravagant prices The tout haunts the suburbs also, and has recently invaded the country by motor-car, working his way into rural private residences by means which are at once amusing and sad

On this head we may note with interest that the number of insured employees in the distributive trades has now reached the amazing total of nearly two millions, an increase of 50 per cent. since 1924! This figure includes no shopkeepers or employers

One-half the world being still unacquainted with the way the other half lives, it is well to put on record here that behind the tout is the strong arm of the British law, ever so good at 'larning' people to be toads. The official Reports of the Prison Department of Scotland (1929) record a notable increase in the

number of civil prisoners. This is the harvest of the petty commerce of poverty market. The Governor of Glasgow prison says that the increase is due to the growth of small debts on cycles, sewing-machines, perambulators, and so forth; he adds that 'practically all the prisoners belong to the poorer classes.'

Prison is a dreadful thing to contemplate, even for the really criminal. How shameful, then, the case of a poor man or woman thrust into gaol after being tricked into buying some wretched article for twice its proper price, and who is unable to keep up the payments out of meagre and intermittent earnings. How especially shameful when we know that, in 1869, imprisonment for debt was nominally *abolished* by Parliament, but carefully preserved as a national institution by sending debtors to prison for 'contempt of court.' Judge Sir Edward Parry tells us that between 1869 and 1929 'over 300,000 of our citizens have been imprisoned for what is not a crime.'[1] Imprisonment for debt backs the tout operating in poverty market. Again to quote Judge Parry: 'The tallymen, the moneylenders, the flash jewellery touts, the sellers of costly Bibles in series, of gramophones and other luxuries of the mean streets; these are the classes of traders the State caters for. For these businesses are based, and soundly and commercially based, on imprisonment for debt.' The terror of prison is exploited to 'screw money out of the poor.'

I have met more than one ex-soldier of the War become tout because his proud country offered him nothing better to do. Not the fault of the army of

[1] From *The Gospel and the Law*, by Sir Edward Parry. I wish every one would read it.

wasters, condemned to waste the living of the poor, if their number exceeds that of our agricultural labourers The fault is with those who, charged with the welfare of peoples, are content to see them work without plan or guidance

2 The Error of Distribution

WE must not forget the effect upon production of the ill-distribution of what wealth there is, although much illusion is cherished in this connexion.

The monetary valuation of the National Income, the aggregate of all the money incomes accruing to or earned by the British people, cannot be precisely stated, but those who have investigated the facts for themselves, and they are few, will not greatly quarrel with £3,300,000,000 as an estimate for 1932; this is for Great Britain and Northern Ireland. It is well to say, for those who have not previously approached the matter, that in this estimate we necessarily exclude any computation of the money value of services for which money incomes are not paid The chief of these is the work of the housewife, and especially of that great majority of housewives who work without hired help. Thus in estimating the national income we have to omit an item which, it is no exaggeration to say, maintains the nation as a going concern, for it represents the mitigation of poverty by the labours of love, and the upkeep of millions of small, ill-constructed, and badly-planned homes by unremitting care How rich the poor in services of affection! Dealing, as we must, solely with monetary incomes,

we may put it that the £3,300,000,000 of National Dividend of 1932 was so ill-distributed that the wage-earners (some 3,000,000 of whom were wageless) and their families, accounting for some 35 millions in a population of 46 millions, drew about £1,200,000,000

Such an error of distribution necessarily leads to the divorce of working units from production. As I wrote in *Riches and Poverty*, 'expenditure is a call for material or immaterial commodities, and a demand for commodities is a demand for labour. That call rules the continuous series of employments which form the main activities and mould the lives and character of our people.' And again, 'While the rich consume the means of living of the poor, we need not be surprised if useful trades languish. A rich person can but consume a limited quantity of useful commodities. After that consumption, having still a great superfluity, he seeks other diversions, and the orders go forth which swell the ranks of the wrongfully employed.'

In illustration of the consequences of the error of distribution, I quoted a letter which certain writings of mine in the *Daily News* brought me from a railwayman, who knew how to express himself in downright English:

'You very rightly, I think, referred to the subject of boots. Here is my own experience I am a railwayman in constant work at 30s. per week. I am the happy, or otherwise, father of six healthy children. Last year I bought twenty pairs of boots. This year, up to date, I have bought ten pairs, costing £2, and yet at the present time my wife and five of the children have only one pair each. I have two pairs, both of

which let in the water; but I see no prospect of at present getting new ones I ought to say that my wife is a thoroughly domesticated woman, and I am one of the most temperate of men. So much so, that if all I spend in luxuries was saved it would not buy a pair of boots once a year During 1903 my wages were 25s. 6d. a week, and I then had the six children My next-door neighbour was a bootmaker and repairer. He fell out of work, and was out for months During that time, of course, my children's boots needed repairing as at other times I had to do what repairing I could myself One day I found out that I was repairing boots on one side of the wall, and my neighbour on the other side was out of work longing to do the work I was compelled to do myself I shall never forget the feelings that passed through my mind as I thought of these circumstances . . . Most surely, as you say, if the 30,000,000 people could and would buy those 50,000,000 pairs of boots you mention, there need not be any slackness in the boot trade'

Indeed it is impossible to forget this striking illustration of the impassable wall erected between workmen who ought to be serving each other. It is to be matched in every town The other day a B B C. missionary, set the interesting task of describing British housing conditions, broadcasted a talk in which he told us how in some desperate slum, below the level of the ground, he found a skilled craftsman of the building industry—*unemployed*. In my own neighbourhood, as in every other, the year 1933 finds many bricklayers and carpenters eking out a miserable existence upon the reduced unemployment pittance

even while they have to pay high rents for dwellings that ought to be destroyed and rebuilt.

3. Death Duty Revelations

THE ill-distribution of income necessarily follows upon the indebtedness of the masses to the comparative few owners of the nation estate. Our society is founded upon Debt. I first directed attention to the revelations of our graduated system of death duties in *Riches and Poverty* in 1905, when it was shown that Britain as a going concern was for the most part owned by a relative handful of its population The official returns proved that, taking the average of the five years 1899–1903, while roundly 700,000 deaths per annum occurred, the greater part of the property revealed by death duties was left in each year by a small group of persons numbering 4,000, whose fortunes were above the £10,000 line These 4,000 persons left roundly £200,000,000 out of an aggregate of £287,000,000 left by all the 700,000 persons who died! Their average fortune was roundly £50,000.

Death taking its yearly toll of life, and the Treasury taking its yearly toll of death, between them made a revelation hard to believe The incredible was forced upon the mind as bitter truth The economic structure of a society left to the dominion of traffic for margins painted itself in the Treasury record in sharp contrasts of black and white, or if you will, of gilt and drab.

In twenty-seven years, British capital has grown in

monetary valuation, although comparatively little has been done to replace obsolete industrial plants, houses, and other buildings with works worthy of a modern civilization The mass of decrepitude remains There has been a considerable increase in the number of small property-owners, caused largely by the activities of building societies, and we accordingly get the increasing record of tiny estates in the death duty returns.

Let us turn to the records of the financial year 1930–31—the twelve months ended March 1931 In that period, we find that 139,633 persons left estates big or little; between them they left £517,513,000 Thus the lapse of a generation raised the value (the monetary valuation, the real worth made no such increase) of estates left at death in a year from under £300,000,000 to £517,000,000 The main details of the number and values of the estates of the later period are given on the opposite page

The great bulk of the £517,000,000 was comprised in a small number of big fortunes. No less than £356,700,000 was left by 8,173 persons out of 139,633 whose estates were reviewed The average fortune of these 8,173 persons was over £43,000 The balance of 131,460 persons left between them less than £161,000,000

If we take the estates over £5,000, we get 15,208 persons leaving £409,000,000 as compared with 124,425 who left £108,000,000 It should be noted that, in the rich class, estates are undervalued by a growing avoidance of high death duties; there is much passing of property *inter vivos*.

Turning to the small estates, of the 124,425 that

DEATH DUTY RETURNS: GREAT BRITAIN

(*Financial Year ended March* 1931)

Class of Estate	Number of Estates	Net Value in £
Bankrupt	1,805	—
Under £100 net . . .	12,087	714,000
Small Estates, £300 to £500 gross	49,078	13,507,000
Over £100, but not over £1,000 net . . .	30,939	21,713,000
Over £1,000, but not over £5,000 net . . .	30,516	72,598,000
Total not over £5,000 .	124,425	108,532,000
Over £5,000, but not over £10,000 net . . .	7,035	52,246,000
Total not over £10,000 .	131,460	160,778,000
Over £10,000 net . . .	8,173	356,735,000
GRAND TOTAL .	139,633	517,513,000

'passed' in 1930–31, as many as 93,909 did not exceed £1,000 each; their aggregate value was £35,934,000, so that the average was less than £400 Thus the bulk of these accounts for so little of the aggregate that if the whole of the 93,909 small estates had escaped the attention of Somerset House, the Chancellor of the Exchequer would hardly have noticed it in framing his budget A strange picture, truly! So few households whose heads, when they die, leave property worth the attention of the tax-gatherer! Such an astonishing concentration of wealth in the hands of a few!

And let us not suppose that these results of haphazard national development spell security even for the few Hundreds of thousands of property-owners have come to realize in recent years that property-owning under present conditions gives no security, that paper values are often a mockery, and that the word 'security' is frequently a hollow jest when applied to the certificates manufactured by modern financial methods

We may truly sum up the matter under that head by saying that while from a material point of view it is better to possess shares than not to possess them, the shareholder finds neither happiness nor security in his shareholding What between the financial sharks and the normal working of a ridiculous and unscientific financial system, unhappy lies the investing head!

As for those beneath the attention of the estates duties, or the tiny estate-holders who put instalment furniture into instalment houses, they are pawns who are played in a game which is not even understood

by the players. These are days when capable and skilled workmen of the highest character are reduced to hunting for work, sharing the miseries of a stupid system the exponents of which bandy words upon the 'mystery' called depression

It was Disraeli who said to a business man, 'You stupid man, you don't know your own stupid business' Disraeli, who put in the mouth of one of his characters the famous definition of Britain as 'Two nations . . . the rich and the poor,' [1] lived in days when research had not furnished mankind with many of the means of common comfort we know to-day. That it is still true that Britain consists of two nations, the possessors and the possessed, with even the possessors fearing their fate, amounts to an indictment of a would-be acquisitive society to which I know no reasonable defence

Let us not suppose, however, that the case before us is one of ill-distribution alone. Too often the poor are told that a better distribution of existing

[1] Here is the passage, it is from *Sybil, or, the Two Nations*

'Well, society may be in its infancy,' said Egremont slightly smiling, 'but, say what you like, our Queen reigns over the greatest nation that ever existed'

'Which nation?' asked the younger stranger, 'for she reigns over two' The stranger paused, Egremont was silent, but looked inquiringly

'Yes' resumed the younger stranger, after a moment's interval 'Two nations, between whom there is no intercourse, and no sympathy, who are as ignorant of each other's habits, thoughts, and feelings as if they were dwellers in different zones or inhabitants of different planets; who are formed by a different breeding, are fed by different food, are ordered by different manners, and are not governed by the same laws'

'You speak of——' said Egremont, hesitatingly.

'The rich and the poor'

wealth and income would give them all that they need There is, of course, a certain element of truth in such representations, and since the War a somewhat better distribution has come about, partly owing to the great series of social enactments of 1906–14, resumed and expanded after the War. I am not likely to forget those enactments, for not only was I among those actively engaged in Parliament and out of it in suggesting and promoting them, but the publication of *Riches and Poverty*, leading as it did to the Dilke Income Tax Committee of 1906 and the consequent revolution in British budgets, demonstrated that Britain possessed the means to apply modest social legislation if she cared to do so Also I remember gratefully that when, at the Ministry of Pensions, I came in 1916 to the framing of a new War Pensions Warrant, I found in the Pensions Advisory Committee the ardent support for a liberal view of a Conservative member, the then Mr Hayes Fisher, who told me that he had never forgotten what he read in *Riches and Poverty* [1]

If, however, we desire to see this subject whole, we have to contemplate the aggregate of the National Income and to observe that, after allowance made for public expenditure and necessary capital saving,

[1] But there are other and shorter memories I, who made the first draft of the existing War Pensions Warrant in 1916, when so many talked of fit rewards for heroes now have the mortification of knowing that a great nation breaks its pledged word to its War pensioners by a means test which takes account of a moiety of their pension The one-legged or one-eyed ex-soldier, denied employment, is punished for being a pensioner! This is called 'economy,' but I could easily find a variety of other names for it

it is not large enough, given equal distribution, to provide more than a very modest standard of life for a great population.

Moreover, the monetary valuation of the heterogeneous goods and services which compose the National Income is, in the nature of the case, no guide whatever to the actual intrinsic value of the commodities so computed The rental paid by an advertiser for a series of ghastly hoardings defacing the countryside figures as 'income,' together with the price of the wasted labour which gives us germ-laden milk or devitalized and costly tinned food, or the high rentals of the filthiest slums, or the remuneration of an agent who has just persuaded a poor family to take out an illegal or improper insurance policy,[1] or the wages wasted on competitive costs. And passing from income to capital, it is equally true that enormous sums are written as the capital valuation of many square miles of ugly and decayed brickwork in which death and disease are rampant, and of the obsolete or slum factories and workshops in which no small part of British work is done, and of the dirty and inconvenient railway stations, often placed at opposite ends of important cities, which mock efforts to travel in the small British area

It is not the adjusted division of a frustrated output, whether expressed as income or capital, that is required, but the scientific large-scale manufacture of

[1] Sir George Robertson, the Industrial Insurance Commissioner, giving evidence before the Departmental Committee on Industrial Insurance, 1931, stated that over 200,000 British children are over-insured, and that the average number of cases of over-insurance is fifty a week!

commodities and their distribution in equity That consummation awaits the economic organizer armed with an efficient and elastic system of exchange We have it in our power to match mass production with mass consumption

CHAPTER VI

PRODUCT MONEY: A NON-CIRCULATING ORDER UPON PRODUCTION

1. A New Meaning for Supply and Demand

THE ideal money is one tbat enables the powers of production to be fully exercised witb available labour upon available materials, while providing consumers with a means of payment wbose purchasing power must be roundly equal to the volume of such maximum production

It is claimed that Product Money, as defined in the opening pages of this book, fulfils this ideal. For convenience I repeat the definition here.

Product Money is non-circulating money, functioning as an order upon production, issued to producers upon certification of approved product by a suitable authority.

This means that to Produce worthily is to be Paid, and that to be paid is to possess a means of payment making no ridiculous pretences or promises, but bearing its own clear and indisputable certificate of origin, and enabling the producer who has earned it to buy the work of other producers who in their turn have worthily earned a similar means of payment.

Each Producer thus becomes an effective Consumer; each Consumer is such by virtue of Production.

So Product Money creates a nearly perfect equation of Production and Consumption, of Supply and Demand, while production is never curbed by monetary default The mass of production creates the mass of consumption, the two advance hand in hand

The exchanges liberated by Product Money are limited by four things only·

1 The extent of available natural resources;
2 The degree of advancement of physical science;
3 The degree and quality of organization of industry, transport, and large and small distribution; and
4 The degree in which, and the purposes for which, civilization values leisure

It is unnecessary here to recount the amazing productivity of modern industrial processes, but we do well to remember that the Earth is a small planet and that its resources are ill-distributed among the world's peoples If Product Money, as an ideal instrument of exchange, is to do its utmost for all peoples, there must be world agreement upon the equitable distribution of resources For the British reader that may seem a point of minor importance, for what between the Mother Country and the Empire the British natural resources are much more than ample to yield an abundance of product to those who possess them, given the liberation of output.

The second point we may dismiss, for the scientific advance has gone so far that if invention and discovery were now altogether stayed, mankind possesses in superfluity the power, given access to materials, to

create abundance. It goes without saying that Product Money would liberate the economic power of any new scientific agent.

Organization, again, presents no difficulty to the modern mind, but it may be remarked that many existing difficulties would disappear with a liberation of work which would place such ample resources at the disposal of the organizer. It is not difficult to provide reasonable rules for contented people, or to produce, carry, and distribute what is demanded by understanding producer-consumers able freely to command the fruit of their labour.

The nature of output and demand, given the use of Product Money, would depend upon education and culture, and involve the creation and enjoyment of abundant leisure. Product Money would cause many surprises in this connexion. When civilization at last came freely to enjoy output, it would perceive very clearly the common-sense limitations placed upon work by culture. Machine-work, providing swiftly for common needs, would find its proper place in life It would not be the main place.

Here it is only necessary to observe that whatever the extent or nature of the maximum output demanded by society, that maximum, with Product Money, is necessarily matched by attendant means of payment. Product carries Product Money with it, creating its own market. With the advance of culture, the maximum output demanded by civilization would change in character; whatever the change of taste, the freedom of consumption would reveal it. Whatever the quality and quantity of the goods and services demanded, the operation of Product Money would

answer them within the wide and increasing limits of physical possibility.

The chief drawbacks attaching to the use of inconvertible paper currency are well known. Its purchasing power is dependent upon the will and wisdom of government; it can be increased in quantity with such facility that the temptation to inflate it has often proved irresistible. Then, again, its lack of intrinsic value restricts its circulation to the country that issues it, unlike gold coins or bank-notes convertible into gold, it cannot be employed to settle international accounts

Product Money, on the other hand, ranks for tangible value, for it is issued against actual commodities produced It bears as significant a certificate of real value as a bill of exchange drawn in connexion with the sale of a cargo of wheat A Product Note tells us at a glance that it represents iron or coal or bricks or tuition or postal work or some other useful commodity in demand This has importance both in its domestic and international aspect

Unlike the paper note of an inconvertible currency, Product Money cannot be inflated, for it is a certificate of actual production A money of circulation cannot be issued against product because it would rapidly increase the quantity of currency, and amount to gross inflation It is the extinction of each Product Note as it is used to purchase product that prevents inflation The quantity of unspent Product Money in existence at any given time is roundly an equation of the quantity of goods and services offering for sale at that time.

The question of standard of value is treated in

Chapter VIII. At this point it is only necessary to observe that Product Money could be worked with a metallic standard, with a nominal or paper standard, or with a rational standard based on commodities in consumption.

2 Product Money and the Seller

WITH the ever-disappointing aid of 'currency,' how difficult it is to find a 'market'! The easy accomplishment of production, now that all can grow the flowers because all possess the scientific seed, is pitted against the ineluctable difficulty of 'selling,' and is accordingly frustrated. 'Over-production' is the term commonly applied to the laughable situation, now continuously obtaining, in which the mere beginning of output, the pale shadow of abundance, is more than the mass of needy but deprived buyers can absorb.

That is why, in our time, 'salesmanship' is preached as a gospel, and 'advertising' so extensively advertised. That is why distributors grow at the expense of producers The chief energies of producing firms must necessarily be devoted, not to output but to selling Little is it realized that the 'registered unemployed,' who as I write in 1933 number nearly three millions, are a smaller drain upon national output than the millions of wasters who perform uneconomic functions.

And production itself has largely to serve the purposes not of useful consumable output but of mere

selling. The greater part of the output of the printing trade is devoted to competitive and contradictory advertising Thus also with the metal, joinery, and paper trades; no small part of their work has to supply the materials of advertising. Thus one part of a small output has to push the sale of the other part.

With Product Money, selling as it is now understood disappears from society To manufacture to approval is to be paid The nature of the approving authority we shall discuss presently The essential point is that all production, whether of goods or services, is *to order*, and is, in effect, a contract of service with established authority, paid for in Product Money during and upon completion of work done.

All speculation upon the making of Margin thus disappears from production To make is to profit in the making, not by monetary margin, but by assured and definite working to approval. The goods produced, the Product Money becomes due and is paid

Thus Product Money frees the individual from the onus of selling and makes him solely a producer, responsible as a producer and only as a producer to proper authority.

Advertising in the present sense, salesmanship, pushing, touting, canvassiog, become obsolete The thousandfold wastes of competitive distribution, with all its attendant anxieties, are ended.

The status of the producer is enhanced by Product Money The form of Product Money, to which we shall come presently, can be so written as to make it representative of output. There is surely excellence

in the conception that, for good and approved work done, a producer of commodities should receive in payment money directly and specially related to his product. Good it is, too, to contemplate the producer entirely freed from the present necessity to call his wares in the market-place and to shout unceasingly about them at great cost.

Production accomplished, and Product Money accordingly earned, the prodncer's function is ended. His it is then either to hold stock for delivery to demand or to deliver his certified product to a proper distributing depot, according to the organization of his particular trade.

There would be, of course, a proper, useful and legitimate 'advertising' of all certified products, but this would be done systematically and not competitively; honestly and not by confused contradictory shouting. It would cost much less in labour power and material than the present muddle, and be soundly economic, because a necessary and essential advice to the consumer.

3. Product Money and the Buyer

THE position of the Producer-Consumer as one buying with Product Money has next to be considered.

The position of one who buys with 'currency' in our competitive society is one of extreme doubt and difficulty. It is not merely that currency is so scarce. In all directions traps are laid for the unwary spender of a starved monetary income. Every one knows

that truth is a strange commodity in the mouth of a commercial seller. Buying is an art practised successfully by few, whether for resale or for individual consumption In 'business,' professional buying too often goes by purchased favour, which accounts for much of the indifferent stuff offered for sale[1] In private buying for personal use, the customer is confused by the shouting of slogans, and condemned to frequent loss through misrepresentation The cards are marked against the unhappy buyer When one reflects upon the rubbish houses, rubbish furniture, rubbish pianofortes and rubbish foods worked off upon hard-working people of small income, it is difficult to speak calmly of the effect of monetary margin-hunting.[2] It is the masses of the people, who

[1] At a luncheon given on March 16 1933, by the Bribery and Secret Commissions Prevention League Sir David Milne-Watson, the president said that very few persons realized what a grave social evil existed in bribery and secret commissions There was a serious danger that the Act of 1916 and other Acts dealing with this subject would fall into abeyance and their usefulness be overlooked The League was less concerned with municipal bribery than with bribery in everyday life The League did a great deal to prevent bribery in ways that could not be described —From *The Times* report

[2] The rubbish is not infrequently dangerous or poisonous, e g flueless gas-fires many celluloid goods deadly enamels In March 1933, the Ministry of Health issued a serious warning against the use of ware coated with enamel containing oxide of antimony Many cases of serious poisoning have occurred through the sale of these articles one at a hospital where seventy nurses were affected In another case, where poisoning followed the use of enamelled jugs, it was found that the rubbish maker sold his goods with the following labelled 'guarantee' '*We guarantee all articles having this brand to be perfectly safe in use and free from any injurious substances*'

On the production side, the poisoning of workers is also frequent.

most deserve consideration, who are worst served in point of value commanded by a trifle of dearly earned currency. The well-to-do citizen, seeking insurance, can sometimes obtain fair value for his premiums; the poor woman pestered at the door to 'sign a form,' gets poor return for her shilling a week, never knowing what 52s. a year ought to buy her in insurance. To look at the furniture shops or garment shops or china and glass shops in poor neighbourhoods is to realize that it is common form to pour sham and shoddy into poverty market.

With Product Money, the buyer commands adequate means of payment, even while its healthy reaction upon the nature of the product improves the quality as well as the extent of output.

The Producer, liberated as a Consumer, takes his Product Money to a market honestly advertised His money, no longer a currency, is an order upon all available products, those products, as we shall see presently, being determined by demand. Spending his Product Money, he hands over to the Producer (or to the producer's distributive organization) what is at once a certificate of production and an order upon production; it is then cancelled and held for audit as a receipt. The money has no further circulation; it has filled its office of giving a legitimate producer a proper call upon outpnt. Each unit of Product Money thus indisputably commands money's worth; its honest purpose is written upon its face and realized in effective demand.

A case in point is the large production of watches with luminous dials, the painting of which with radium salts causes terrible injury to those who are tempted to do the work.

So we get a society of Producer-Consumers who are also Consumer-Producers There is no place in it for roguery or deception; it is not worth while to cheat when production and consumption are each alike liberal and free

So the individual, elevated in status as a producer, is by the same token elevated as a consumer to the intelligent command of wealth

4 The Form of Product Money

WE come to the practical shape of Product Money. The essentials are

1 That it should clearly express to the producer the certification and valuation of his work while giving him an equally clear title to consumption.
2. That it should provide for its own extinction in expenditure by including a form of receipt.
3. That it should be issued in units of small dimensions for convenience of expenditure.
4 That it should be issued by a suitable authority, for each branch of production, jointly with the Bank of England, a branch of the Central Bank being attached to each issuing authority.

On the opposite page is printed a form of note that would serve

Its general form is national, but it bears the imprint of the Guild of Issue—in this case the Iron and Steel Guild. (Of the accompanying guild system, more hereafter.)

It also bears the signature of the Government Auditor of Issue of the Guild, who is also an official of the Bank of England, constituted as a State Bank.

It is seen to be a certification of work approved for consumption, in the supposed case Iron and Steel of a certain category. The monetary unit thus clearly appears as money based on iron. It is very honestly what it purports to be. It is genuine money. It cannot be doubted. It explains itself. There is no mystery or maze or illusion.

The Product Note bears a Consumption Receipt

IRON AND STEEL GUILD. Date...... Series......

PRODUCT SHIL 1 LING NOTE

Certifies Product, approved for Consumption, of Iron and Steel, Category A, valued at ONE SHILLING

For the Bank of England

....

Govt. Auditor of Issue, Iron and Steel Branch

CONSUMPTION RECEIPT

I certify that this Product Note No...... ....
was accepted by me..... ....of
the .... Guild, in payment for . ...
.... Goods, Category ....
Date of Delivery ....

which is completed when the money is expended. That completion ends the life of the Product Note. There is no further circulation, the receipted Note goes to audit through the Guild that receives it

We are to imagine such Product Notes issued by a Guild to its members with the audit and approval of the State Bank, the authorized product governing the money issue. The determination of product will be discussed in the next chapter, but we may at once observe that, with Product Money, product is called for and governed by realized and liberated consumption.

Banking in its internal aspect becomes mainly a matter of verifying product and the consequent note issue, and of promptly auditing consumption

The British system of divorcing 'banking' from industrial operations should not be allowed to prejudice the mind in this connexion Under the Product Money system, there would be a proper organic connexion between the production of wealth and the issue of money to represent it and facilitate its exchange. We get a hint of this conception in the excellent arrangements made by Continental banks to help producers Recently, in Italy, I examined the Silk Branch of a great Italian Bank. This department was organized under skilled management *to pay the producer before he sold his product.* The silk producer brings his sample cocoons to the bank and upon proper evidence of his crop he is advanced a large proportion of its estimated value. The bank also helps him to sell by exhibiting his cocoons to buyers, whose convenience it becomes to call at the Silk Branch for the purpose.

5. Product Money and Services

THE commodities now produced by our society consist far more of services than of goods This is a point of the greatest importance As I have shown in Chapter IV, only one in three of our gainfully employed people is a producer of material things.

So little is this realized that engineers, impressed by their own knowledge of the power of production as magnified by science, are led to wonder why so much of potential power is not apparent in use It is forgotten that when two-thirds of our working population are not engaged in producing at all, we have a condition in which by far the greater part of the population obtains no assistance, or very little assistance, from the scientific advance. When only one-third of our workers is making things, obviously only one-third can apply science to manufacture.

It is true that the transport workers, who are numbered among the two-thirds who are non-producers, do actually obtain scientific assistance through the railway, the internal-combustion engine and the steamship or motorship, but such workers form only a small part of the non-producing two-thirds, and moreover, their work is marked by an extraordinary degree of wastefulness, including as it does the unnecessary shunting of empty waggons on the railways, and the stupid criss-crossing of competitive partly loaded lorries on the roads.

Apart from transport, science does little for the enormous balance of non-producers. There are the useful ones, such as the teachers, the officials of

Government, the postmen; there are the individuals who are useful in present conditions but who would hardly be needed in a rational society—the lawyers and policemen and others, there is a great host of middlemen, a fragment only of which would be needed in a reasonably organized society. Taking these as a whole, we see clearly that the divers operations of the non-producers are almost entirely unaided by science.

It is true that the engineer provides a lift to take an unnecessary clerk to the fifth, tenth, or twentieth floor of a hive of between-agents, a typewriter for the redundant clerk of a worse than redundant pusher of ill-designed and badly-made commodities; a motor-car for a gentleman of commerce condemned to touting with an expensive electrical appliance; for the most part, however, the millions of wasted workers have to be considered as without the province of scientific aid.

If there is any truth in the principle of Product Money, its adoption would have a most salutary effect upon the relative proportions of the usefully and the uselessly employed. Product Money would create an enormous demand for material commodities which could only be answered by the devotion of a larger part of the community to material production. The potential demand for material comfort is so enormous, and at present met so fractionally, that we have entirely to revise our conceptions of the scale of production. As yet we have not glimpsed the dimensions of possibility in this matter. There is also so much backwardation to make up that the keenest application of science to industry by a host of workers

would for some time be needed to start the nation on the new road. A certain result of the new system would be to transfer many individuals from the production of useless services to the production of useful material commodities. This would necessarily follow from the working of the law of supply and demand as at last made real and beneficent by Product Money. The demand for goods would quickly appear; it would be inexorable and it would be answered magnificently.

In so far as useful services would remain or be modified or extended in some directions (as, for example, in research), the payment of Product Money would be simple. Their producers would be remunerated in most cases by salaries which, as we shall see presently, could advance automatically with the liberation of output.

Words are powerful things, and much can be done for a new society by dropping old dishonoured terms Wage and Salary, Profit and Interest—let the terminology pass with things outworn. The reward of the useful servant of society, providing either goods or services, might well be termed *Bonvail*, which is to say *Good Gain*. Whatever it were called, by new name or old, the thing would be good and become increasingly so.

All transitions cause dislocations for individuals, and I cannot promise that Product Money could come in without disturbance of existing titles. For some services we should have to proceed as we did with the unregistered, unqualified dentists in recent legislation. We should incorporate them in the new order and salary them at a fair rate, making the best possible

use of them if they could not transfer to better employments Society could afford to be generous in the new dispensation, with money no longer a curse but a blessing

Lawyers now are needed chiefly to settle business muddles and disputes The late Lord Oxford, when as Mr. Asquith he was told that what the country wanted was 'government by business men,' remarked that as a lawyer he had 'spent most of his time in getting business men out of their messes' The lawyer's occupation would largely pass with the coming in of Product Money, but the new organization would call for keen brains, and many late legal practitioners would find good hunting, for the others, there would be no difficulty in providing compensation in a newly wealthy society The same is true, *mutatis mutandis*, of many other services

Many of our large and small dealers would be needed in production; for the rest, given good occupation in economic distribution if efficient, or pensioned off if inefficient Such cases present no difficulty to a society armed with Product Money

As I have said, the immediate and short-term effect of Product Money would be to increase material producers at the expense of the present largely wasteful army of non-producers After a time, however, when the nation had created a new social framework of splendid thoroughfares, coast works, railways, towns large and small, public offices, public utilities, stores, dwelling-houses, industrial farms, mills, factories, reformed mines and quarries, and so forth, there would probably be a swing back of workers from material production to the larger production of services

Upon that one must speak tentatively, for we can bardly judge in advance of the tastes developed by a society set free from economic disability and the carking cares that go with it. The trend might well be through luxury to the simplicity beloved of a true culture. We can say this with confidence, that whatever the degree of material wealth called for, good organization and Product Money could answer the call.

6. Product Money and Taxation

WHILE it is the essence of Product Money that it has no circulation, nothing in its nature prevents its transfer as a deed of gift, or from the producer who receives it to a Government making levy for public purposes

A Product Note ceases to exist as soon as it registers actual consumption, just as a theatre ticket ceases to exist when, at the theatre, it gives admittance to the seating accommodation it represents. A Product Note, however, may legitimately be given by one person to another, just as a theatre ticket may be passed to a friend.

Thus with Taxation. We imagine the Government, needing such and such sums for the purposes of government, levying upon producers either in bulk through their Guilds or individually through their members, and thus taking to itself the purchasing power represented by the Product Money so collected.

There would be no difficulty whatever in thus raising revenue for any national purpose, whether to build a

warship, to remunerate a judge, or to pay an old age or war pension The Product Money thus taken by the Government would be cancelled out like any other Product Money upon its actual expenditure in realized consumption

We may observe with great interest how much the problems of taxation would be simplified with the establishment of the new system.

In the first place, the liberation of production and the consequent liberation of money, for it is the same thing, would place the Government in ample funds without causing any strain upon productive powers. A liberal production could furnish a liberal State revenue

In the second place, the method of taxation could be admirably simplified With taxes made a direct charge upon product, the official costings of the Guilds would take account of this item, and the collection of the levy could take place in bulk so that it would never trouble the ultimate payers directly. In this respect all taxes would become at once direct and indirect. Directly paid in bulk, they would become indirect for the unit producer.

Mass Production for Mass Consumption, at last realized, could make light of that fraction of production required by the State for Government purposes

In this as in other connexions we have to make an attempt—I admit it is difficult—to free ourselves from the humility of preconception based upon our present starved output of useful goods All our thinking is cabined, cribbed, and confined by the use and custom of a thin stream of adulterated wealth. We have to enlarge our conceptions of economic possibilities before

we can rate at their true worth the consequences of economic liberation.

7. Product Money and Capital Saving

IT has been said that capital is needed but not the capitalist At least it is true that the harvest of science cannot be either produced or garnered without the employment of considerable masses of capital—of goods constructed to produce more goods. Capital is not money, but goods.

The operations of capitalist accumulation in our society have so far resulted in a most indifferent and inadequate flow of consumers' goods produced with the aid of capital owned for the most part by a small fraction of the population. The facts on this head have been already given in Chapter V, here we may remind ourselves that the estate duty records of the financial year ended March 1931 show that of the 517 millions which passed at death in that year, as much as 357 millions was owned by only 8,173 persons.

To state the case of British capital accumulation with accuracy, we see by far the greater part of the population in debt to a minority for the means to live. The mighty British population, for the most part divorced from the possession of land and deprived of real economic status, is dependent upon economic overlordship for the use of scientific tools. The majority are not even called upon to use scientific tools at all, unless that dignity be held to rest in an occasional ride in a motor-bus or tramcar or railway

train, or in some minor adventure with a passenger lift As we have observed in discussing the present production of services, *scientific tools are for practical purposes unused by the majority of our population.*

In passing we may observe also that the operations of modern industry and commerce, by congregating many persons in small areas, have enabled the fortunate owners of area in those centres heavily to levy for rent upon the work of science

Each unit of capital put up demanding its toll, a very high price has to be paid by the community for the use of capital It pays, of course, much more than interest It is also condemned, in despite of scientific truth, to subscribe to the ridiculous theory that capital can be maintained intact while in use. Science denies and capitalism affirms that one can eat one's cake and have it too I have said before,[1] and it is necessary here to repeat, that in scientific truth 'capital, which consists of a store of commodities at any given moment of time, produces not interest or increase but decay, the decayed capital consisting of exactly the same amount of matter, but assuming different forms Thus a machine is built, and represents a portion of capital stock Leave it to Nature, and it rapidly decays. Nature sets no more store by steel than by oxide of iron The machine does not really disappear; its matter neither decreases nor increases, chemical action translates it into different forms of matter Such translation can only be prevented by exerting continual labour upon the machine, and no matter how much labour is expended upon it, its efficiency greatly diminishes in use

[1] *The Triumph of Nationalization*, p 14

'Throughout our society vanished capital demands its toll in defiance of scientific law. Despite this we deny to the surviving wife of a great inventor, however glorious his work may have been, any profit from the fructification of his genius. Thus we declare the dead to be living and the living to be dead. Let us not be surprised, then, if the modern scientist derides the pseudo-science of commercial economics.'

When an inadequate capital store is used without plan to produce a thin stream of commodities, and while what capital exists is credited with magical attributes unknown to physical science, we must not be surprised at the aspect of poverty market

Our modern work is founded upon the creation of debt, euphemistically termed 'credit.' The debt is held to be endowed with miraculous qualities Debt alone, it appears, is imperishable Men, institutions, states, empires may come and go, but debt is indissoluble, permanent, everlasting

The American technocrats, seizing upon the gloriously unscientific theorem that debt is eternal, point out that in the United States what is called finance has raised the debt of the American people to their capitalists to 218,000,000,000 dollars. The British figure is not quite of such astronomical dimensions, but it serves.

It goes without saying that many of the attempts to give permanence to debt utterly fail. They fail through ignorance, through mismeasurement, through misfortune, through roguery. With people desirous of putting by for the rainy days that are only too certain in our existing society, what more natural than that the demand for everlasting cakes should

be met by obliging gentlemen who are only too ready to clothe with attributes of indestructibility joint-stock company proposals of the most outrageous character ?

Since the War, as before it, the company-promoter has given us many examples of the art of dissipating capital while pretending to make it grow The latest company boom was that of 1928, which we have already described in Chapter II in the words of the Macmillan Committee on Finance and Industry. Nor should we forget the orgy of company promotion which immediately followed the War In 1919–20 hundreds of millions were sunk in new capital issues which in large part merely represented the selling out to British investors of old businesses at inflated war values, such issues formed no intrinsic addition to British material capital. I made a protest on this subject on February 19, 1920, in giving evidence before Lord Shaw's Transport Workers' Inquiry On March 16, 1920, Sir Austen Chamberlain, speaking as Chancellor of the Exchequer in the House of Commons, said 'I must say that I think that those who are capitalizing and recapitalizing old businesses on the basis of present inflated profits are entering upon a most dangerous task, are taking a great responsibility, and are laying up for themselves, if they continue to hold any interests in these concerns, and certainly for those whom they induce to come into them, as well as for the country, very perilous future problems' While this (relatively) large amount of capital was being wasted, the nation which thus dissipated its resources was in crying need of the application of capital to many great objects.

Even when company-promotion is honest in the sense that it demands no more than a big profit, it is accompanied by expenses so extravagant that the best joint-stock undertakings start work with serious handicaps Thus, in a case before me, a company of small dimensions, with a capital of £40,000, spent nearly £8,000 in merely getting afloat; the lost £8,000 is nevertheless written on share certificates and expected to yield dividend!

The liberating influence of Product Money would have this effect upon capital saving, that it would enable the community easily to redeem its existing capital indebtedness while for the future getting rid of the burden of interest The point will be more appreciated when the following chapter, dealing with organization, is read, but it will be at once apparent that when quantity production is freed from existing shackles, it will not only multiply the output from existing capital but furnish us with every desired facility for the employment of more capital. The process of organization would also free the individual from the troublesome, irritating and disappointing function of personal saving, now necessarily a matter of speculation fraught with extreme anxiety and disastrous loss.

The burden of existing debt, while enormous in relation to the present attenuated flow of consumable commodities, is small relatively to the income that may be reasonably expected from the organized use of Product Money. For that reason it is fortunately unnecessary to discuss any question of repudiating existing capital obligations. It would be proper to enact a time-limit for all such debts, and to adjust

them to the new command of wealth given by Product Money. There would be no difficulty whatever in *providing for* their *extinction without injury* to individuals.

Too often such matters are discussed as though in our society there now existed some enviable mass of real wealth, covetable for the community. That is a conception which ignores the real nature of the case. We are so accustomed to poverty that our existing capital is not recognized for what it is, a most inadequate stock. Moreover, by far the greater part of the capital now employed consists of material which sorely needs to be reconstructed, renewed, modernized, or altogether destroyed as encumbering the ground. The liberated work of the community needs new and worthy capital.

CHAPTER VII

NATIONAL GUILDS AND PRODUCT MONEY

1. National Guilds Charged with Production

PRODUCT Money, we have said, must be certified by a suitable authority. That authority we conceive as an organized controller of production, responsible for the general good of an industry, having reasonable direction of its members, and charged with the framing of proper ordinances for the erection of good standards of work The division of the product of the Guild, in terms of Product Money, would be conducted in concert with the National Bank, a branch of which would be attached to each controlling authority

Such an authority is properly called a Guild. It would proudly govern an industry, including all its parts and, as workers, all the persons working in it, whatever their functions.

We are also to conceive the erection of a National Guild Council, representative of all the Guilds and exercising a general direction and apportionment of production.

The National Bank would also be represented on the National Guild Council, and would report to it upon ascertained Supply and Demand. The Council would accordingly determine in broad outline the

outputs of the various Guilds, discuss and direct any necessary changes in production, and equate supply and demand between industry and industry.

The individual Guild would certify the products of its members as eligible for consumption and as therefore qualifying for the issue of corresponding Product Money. The National Central Bank, through its Guild Branch, would accordingly print and issue Product Money, working upon the costings of official auditors This process would resemble the costings system established by the Ministry of Munitions in the World War for the output of the national factories and for the pricing of contracts—work which greatly reduced prices and saved the nation very large sums

The division of the product of an industry, in Product Money, among the members of the Guild, would be matter for arrangement and agreement as between the various parties concerned The Product Money issued to the Guild would cover all its costs The liberality of the new production would ease and simplify all the human issues It is not difficult to divide plenty Our existing disputes arise from a starved output

A Guild, it will be perceived, would be not only a producer but a consumer As producer, it would receive Product Money for expenditure. As consumer, it would receive products from other Guilds, and accordingly receipt the Product Money of other Guilds So the branch bank of each Guild would report to the National Central Bank (1) the Guild's monetary issue, and (2) the Guild's deliveries to the order of (accordingly cancelled) Product Money. Thus the National Central Bank would have a complete and

continuous record of the balance of supply and demand, for the information of the National Guild Council

The Guild, in its initial stages, would bear the old burdens of rent and interest, but these could be discharged within time limits and discharged readily because of the new facility of production They would, of course, be adjusted to the new purchasing power, so that their true yield would not be unjustly increased.

Each Guild would make provision for its injured members and for those becoming incapacitated from any cause. This would render commercial ' insurance,' with its uneconomic costs and charges and employments, obsolete. The Guild would pool its incidental adversities and therefore make light of them, with a minimum of book-keeping

Such a Guild would regulate apprenticeship, pursue research, accumulate out of product new capital, and distribute wealth in distributing Product Money It would decide the conditions, seasons, and hours of labour, which in common sense would vary as between Guild and Guild.

A Guild thus constituted becomes a National Trust, charged in the first place with the obligation of production in the public interest, and in the second place with the material welfare of its members

We have seen in the last chapter how the Guild system, working with Product Money, would simplify the problem of taxation; there would remain no problem, for the Guilds themselves would provide for some of the expenditures now termed national; the remainder would present no monetary difficulty in a Guild State gifted with liberated productive powers

It is very earnestly to be hoped that the proposal to abandon 'currency' for Product Money will not be condemned because the change would carry with it the planning of economy. It would have been as sensible to condemn steam because its introduction demanded the use of special engines, or to reject the internal-combustion engine because it meant closing the stables. Every new invention of importance necessarily causes an economic revolution.

In any case, the era of National Planning has begun.

2. Practicability of the Guild State

WE must not believe that the organization of a largely populated nation as a Guild State is beyond human capacity. Do not let us cherish a false conception of the magnitude of human affairs. It is a small thing, this planet of ours, and the realization even of the 'brotherhood of man' in a World State or World Federation is well within our reach. Mother Earth is not very big but very small. Her diameter is a mere 8,000 miles, and her land measures no more than 56 million square miles, of which 40 per cent. consists of the hot and cold deserts, leaving an area of some 34 million square miles, of which perhaps 17 million are cultivable.[1] It is this strict limitation of resources that is at the root of the chief 'international' troubles. If only there were more room to move, more land to divide! Man squabbles on his

[1] Estimates of Professor C D Fawcett, given to the Royal Geographical Society

little globe even while he misuses it. Small groups are seen playing dog-in-the-manger in areas great relatively to their needs, even while larger groups are seen reclaiming tiny bits of land The small planet, sorely needing a planned economy, is resigned to political folly and neglect.

To plan a reasonable economy for so small an area as Great Britain is a matter of easy accomplishment In the World War, as I point out elsewhere in these pages, it was done in rough-and-ready fashion in less *than two years,* despite *the acute difficulties of* warfare and the devotion of so many men to the fighting forces.

Great Britain measures less than 69,000 square miles; her railways measure only 20,000 miles; her iron and steel industry, organized in one Guild, would be much smaller than the United States Steel Corporation; her chemical industries are for the most part governed by a single joint-stock company having a capital of £70,000,000; her importations of primary products are easily susceptible of truly economic control, and were so controlled in the War; her large ocean-going ships are surprisingly few. Difficulty in planning the British economy is not inherent; it lies in the mistaken view that Britain's economic affairs are 'enormous.' For that, among other reasons, I showed in Chapter IV the true extent of poverty market. We have to shake off the stupid misconception of an existing 'wealth' and an existing 'mass-production' if we are ever to sow for a harvest worth the reaping. Our minds are economically constipated.

Italy has found little difficulty in organizing a Guild

State Truly it is one less ambitious than I outline in these pages, but at least it covers the entire economy of a population of over 42 millions. *It governs, but does not own, industry, its aim is to shape industry in the public interest while leaving ownership in private hands* The work has been done since the summer of 1926.

The Italian Corporations, which may be properly termed Guilds, began with the law of April 1926, which set up legally constituted trade unions or syndicates (*sindacati*) for both employees and employed. I was in Rome a few months after the law was passed, and was one of the first to see the proofs of a diagrammatic exposition of the plan, which was explained to me by the Duce. Its essentials remain in a code consummated in an Act of 1930 establishing a National Guild Council (National Council of Corporations)—an economic parliament governing Italian work as a whole, whether agricultural or industrial, whether on land or sea. Moreover, the Guilds have the right to nominate a certain number of candidates for parliamentary representation.

The seven great Italian Guilds respectively incorporate agriculture, industry, commerce, banking, land transport, sea and air transport, the arts and professions. These may and do establish branch Guilds; thus a separate branch under professions has been formed for all working in public entertainments—the drama, the cinema, the opera, &c

The Guilds or Corporations (*Corporazioni*) are thus legally embodied in the Italian State. They rank as official organs for the regulation, co-ordination, and promotion of production in the national interest. They are charged with the honour and welfare of a

nation's work The Italian State, through the Guilds, respects labour as the life of the community. 'Work in all its forms, whether intellectual, technical, or manual, is a social duty.' So runs the Labour Charter of 1927, which is associated with the Guild laws. The Guilds promote technical improvement, regulate conditions of employment and apprenticeship, and are charged with educational and benevolent functions. No employer may lock out his men and no employee may strike, the Guilds settle disputes while work continues If they fail in conciliation a special Labour Court decides the issue, but never is work stopped pending its decision

If we turn from Italy to Russia, we have another example of planned economy on the largest possible scale the necessarily small affairs of our planet allow. *Whereas the Italian State organizes without owning, the Russian State controls directly through ownership.* The Soviet Government has not found it impossible, in a nation of 170 millions of mostly backward and unskilled people, to organize modern industry. I recall with some pleasure that words of mine led Lenin to set afoot the planning of Russian super-power electrification, which has grown magically, as indeed why not? The first Russian 'plan' was Lenin's fifteen-year electric power scheme, launched in 1920 and already largely realized. For the rest, the great Soviet area of over eight million square miles is now dotted with modern mills and factories, the erections of less than five years of planned work. Already the outputs of a number of old-established British industries have been surpassed in magnitude, a thing not surprising when we consider the contents of

Chapter IV of this book Pity that our people are taught by their press to despise a once backward nation that is now rapidly overhauling them

By 1948 the Soviets will be producing more than Britain in every *useful* department of work, unless Britain awakens to the real meaning of 'mass-production'[1]

Clearly, there is nothing in the planning of National Guilds to deter us The organization of industry is in any case necessary, whether Product Money be right or wrong

It will be perceived that while the Italian Fascist and Russian Bolshevist conceptions of industry are similarly based upon the planning of economy, there is an essential difference in respect of ownership and they are applied to widely varying territories Italian Fascism operates in a very small area, much of it mountainous or infertile, exceedingly poor in raw

[1] On this head, the testimony of Mr G J Gibson Jarvie, Chairman of the United Dominions Trust Ltd, in a speech to the Glasgow City Business Club (October 28, 1932), may be adduced After speaking of what he had seen of the mighty new works and splendid new holiday resorts of the Russian workers he went on to say 'Russia is a new Russia being built up in the most modern and scientific manner the younger generation is fanatical in its zeal for the Government these youngsters and these workers in Russia have one thing which is too sadly lacking in the capitalist countries to-day, and that is—hope! I talked to many of these workers people I met casually their belief in their own and their country's future is a religion of zealots The people now are poor according to our standards but as they say, they are building for themselves' And he drew for Britain the moral, 'One fact emerges beyond all question and that is the sheer necessity for a planned economic system an economy which will enable us to distribute those goods which it is said have been over produced an economy which will turn our workless into producers'

materials, and lacking coal. The Soviet Union commands 8,200,000 square miles, or one-seventh of the world's land, and is exceedingly rich in the materials of industry The Italian system, while constructing a national framework, and while giving direction and proportion to the various elements that make up the economic life of the people, leaves capital in private hands and places reliance on private enterprise in the conduct of affairs in detail. The Soviet system, on the other hand, combines planned economy with public ownership *The institution of Product Money, as conceived in these pages, is compatible with either Guilds federating and controlling private ownerships or Guilds owning capital.*

It is noteworthy that whenever a responsible body of men is set to consider the reform of a modern industry, we find them driven to suggest organization upon a national scale. An official proposal to form a British Iron and Steel Guild is now before the public.

The British iron and steel industry, for long the first in the world, has fallen to fifth place, although situate in an island forming an ideal power workshop, having an unequalled geographical position, and possessing covetable trading advantages in an Empire covering a fourth of the world. When the policy of tariff protection was resumed in 1931, an Import Duties Advisory Committee was set up, charged not only with the determination and revision of import duties, but with the all-important responsibility of securing productive efficiency in the industries selected for protection. It was in performance of this duty that this Committee created a National Committee of the Iron and Steel Industry to study organization

and to formulate a suitable scheme. Proper organization of the trade was made a primary condition for the grant and extension for two years of an import duty of 33⅓ per cent on a wide range of iron and steel goods The industries concerned, and they are many, were thus invited to suggest their own reform, and this they have done, with few dissentients. Their proposals have been accepted as a basis by the Import Duties Advisory Committee, who in turn have recommended them to the Chancellor of the Exchequer.

It is proposed that the iron and steel industry as a whole should be rationalized as a co-operative body entitled 'The Iron and Steel Corporation of Great Britain' Like the Italian corporations, it would not own capital, but federate and co-ordinate the various units of the industry Eleven productive associations are proposed, each combining all the manufacturers of a group of products The groups are: (1) Pig iron and ferro-alloys, (2) Blooms, slabs, billets, plates, angles, sections, joists, sheet and tinplate and re-rolled products such as rods, bars, hoop, and strip; (3) Wrought iron; (4) Special steels; (5) Steel castings; (6) Forgings, (7) Sheets; (8) Tinplates; (9) Tubes; (10) Wires, (11) Fabricated Steelwork A separate British Iron and Steel Export Association is proposed to handle oversea orders for all the associated groups Each group, it is suggested, should govern itself in point of efficiency, while the federating Corporation should co-ordinate the whole and help the groups to serve each other and the nation The correlation of production and consumption involves the control of imports and indeed of every factor of a complex industry Control of price would of

course be necessary, and, indeed, is already practised in the industry. Voluntary membership is apparently proposed, but the time will come when no aberrant action will be allowed to thwart any such scheme of organization.

Not less noteworthy are the recent reports of the Pig and Milk Commissions set up by the Board of Agriculture.

The Pig Commission formed in April 1932 under the Agricultural Marketing Act, proposes a Pig Industry Development Board, acting in conjunction with Marketing Boards, and guided by a Permanent Reorganization Commission charged with the national planning of this and other branches of agriculture. The scheme provides for technical improvement, for organization, for marketing, and for the reduction of imports as home production is improved and increased.

So with milk. The Reorganization Commission for Milk recommended in February 1933 the establishment of a Central Producers' Board, a Central Dairymen's and Manufacturers' Board, and a Joint Milk Council. Between them, it is suggested, these bodies should improve the quality of dairy products, assume ownership of all milk sold off farms unless retailed directly by producers, and settle just price. The price margin between producer and consumer was found to be unduly large, as indeed it is.

Such proposals as these are not made by men in pursuit of a fixed idea; they naturally arise from the consideration of the disorder and waste existing in all the trades of production and supply. If Britain awoke to the needs of the time, and to the fact that time waits for no nation, she would compulsorily

organize all her industries, whatever her monetary system, forming Guilds to embrace all workers, from the highest to the lowest The iron and steel industry, as the National Committee admits, has a 'complex individualistic organization' unsuited to modern co-operative conditions, but it is in no greater disorder than other British trades and indeed is far better organized than some.

3 Equation of Supply and Demand

WE have seen that among the functions of the supreme National Guild Council it would be to equate supply and demand over the entire field of national production.

Human affairs are necessarily imperfect. We cannot expect or indeed desire, in the field of work, to rival that nice adjustment of forces reigning in Nature Each natural region exhibits a wonderful self-containment in which vegetable and animal life maintain a balanced relationship, a mutual existence in which each species reacts upon the other, while the whole is based upon sunlight and atmosphere, land and water. Within any region there is thus a concert of lives of many kinds forming a life-commonwealth. The equation of production and consumption in such a natural area is the product of a law of death, of natural law which creates a spate of lives while making provision for a relative few.[1] Out of this welter man has

[1] Those who desire to pursue this fascinating subject may be referred to Conrad Guenther's *Darwinism and the Problems of Life* t is also the theme of the present writer's poem *The Immortal urpose.*

emerged, turning natural law upon itself; refusing to let his children die. Ours it is to use energy and so to order lives as to create a social organism knowing relative peace, relative happiness, relative comfort Perfection is denied us, but with the degree of control of natural forces already acquired we can confidently aim at a great ideal, knowing that although we must ever work within assigned limitations, our good purpose is now armed with instruments that await organized employment to produce what in human terms counts for plenty.

I have suggested that the intelligence of men, exercised upon the body of systematic knowledge now existing, should now enlarge its ambit and embrace the organization of work in that public interest which in the true sense is also the best individual interest, since we are members of each other. We have pictured a Guild State with each great industry controlled by an institution properly representative of its parts, charged with the performance of good work. The great governing Council erected above, while representative of, these Guilds, would undertake the duty of making the entire economic body a life-commonwealth, well balanced in its parts, never losing grasp of great and essential needs in the prosecution of detail, and never neglecting the importance of detail because of the prime necessity of observing proportion.

Our pseudo-economy exhibits the gravest errors in proportion Speculative enterprise always concerns itself with that which is most likely to yield an immediate return—the biggest return in the shortest possible space of time. So in a community left to the interaction of the forces of greed, and dominated by

the creed that it is the chief duty of man to buy cheaply and sell dearly and thus secure a monetary margin, we see the erection of the trades of waste even while we wait in vain for the prosecution of the essential trades that serve life After long years of waiting, we have only just secured the establishment of a national electric supply system [1] While that primary modern need was neglected, the energies of a large part of our population were misdirected to the trades of waste.

Nothing has been more pitiful in the dark years succeeding the War than the success of certain trivial trades and the failure of certain essential trades. Thus we have the ironic contrast of home-making resigned to the speculative construction of rubbish houses, while splendid material and the services of talented artists and writers are devoted to the increase of advertising trades clamant for profit in a market of mainly propertyless persons of trifling income. In a country crying aloud for new construction, the iron and steel industry has blown out its furnaces. Our fundamental coal, the very basis of British work, is produced at a (monetary) loss, while not one household in a thousand enjoys the fuel supplies that it needs

We do well again to remind ourselves of these vitally important facts when we discuss the possibilities of supply and demand under the new monetary system here proposed It is the fate of the reformer to be reminded of difficulties and possible disharmonies The sufficient reply to those who can see nothing but difficulty in a new system is to remind them of the disorders and failures of the present system or lack

[1] It is noteworthy that this industry, because nationally organized, has made great progress throughout the ' world crisis

of system. Whatever the faults of the new proposal, the thing that is must be utterly condemned as unworthy of our existing powers

We have suggested that the continuous reporting of (1) the issue of Product Money against production and (2) the cancellation of Product Money in consumption, enable the National Guild Council to keep its finger upon the pulse of national effort. There would be, of course, occasional errors in that the production approved, against which Production Money had been issued, might not be wholly demanded That, of course, would be merely a different version of what happens now. Again and again, as things are, production goes to waste, it is a commonplace of work as we know it. Not only so, but the deliberate production of unworthy goods is so great that even what poor consumption is possible with our currency, too often buys wastefully and in vain Reason suggests that while no endeavour to produce well and usefully could always be successful, the degree of failure and the nature of failure with the Product Money system would be very different from the errors, quantitive and qualitative, that now pervade our existing industry and commerce

It will also be apparent that errors of supply in a liberated and generous production rank very differently from errors in a restricted and narrow production. In a condition of plenty, the adjustment of error is a small thing; in a condition of scarcity, errors mean terrible distress, written in the breaking of businesses, of homes, of families.

The erection of each industry as a Guild would enable it to pool its errors, its losses, its human ad-

versities. The erring production of an individual Guild—some detail failing to meet with demand in consumption—could be carried over and stored for a period and disposed of at adjusted rates or presently remodelled in suitable cases. These things are matters of detail which will only deter those who lose sight of a great object and forget that human imperfection must attend every form of effort, however well designed, however good as a whole.

There is matter for enthusiasm in the conception of a National Guild Council continuously moulding the economic life of a nation, and never losing sight of the essentials of healthy social existence What a glorious framework might be made of the land area of Great Britain, affording as it does so much natural beauty for raw material! What towns we might come to possess, what facilities for travel and transport; what homes for a people regenerated by the prosecution of good work and redeemed from the false gospel of work for work's sake!

Grasping the scheme of things entire, we should arrive at a true National Budget, having regard to both internal and external operations. At home it would embrace the output of field and forest and mine, of fisheries, of every sort and kind of industrial production, and of transport and distribution. It would classify the national undertaking by whole industries, each in the control of a Guild. Product Money, as we have seen, would translate into figures of demand the national consumption, although this would not prevent the central economic control in experimenting in supply, or any Guild in proposing any desirable degree of novelty in its forecast

of production. Indeed, with production liberal and demand assured, one could afford to experiment as never before, with errors of experiment pooled and a certain generosity of output always available.

Dealing with external exchanges, the national budget would forecast import requirements and export shipments upon evidence secured from the various Guilds, and accordingly ascertain and provide for any balance of trade arising. Thus the nation would be presented yearly with a budget amounting to an estimate of work to be accomplished, that estimate being part of a scheme of longer term—it might well be a Ten-Year Plan—designed to give a well-balanced development to the nation's activities as a whole In the general scheme, the State revenue and expenditure budget, with its appropriate taxation, would then fall into its proper place and appear truly as a minor matter in national affairs.

4. The Abolition of Unemployment

UNEMPLOYMENT in its present sense of *idleness enforced by deprivation of the means of livelihood* would disappear entirely with the adoption of the Product Money system.

Each Guild would become responsible for the distribution of work among its members, and for the economic support of its members in whatever circumstances, short of criminality; little of crime could flourish in an atmosphere of liberality. Each Guild, to meet the new and greatly enlarged demand for its

products arising from the liberation of consumption, would find it necessary to exploit its available labour resources to the utmost We must not forget the reciprocal effect of Product Money—production always creating demand

Nor alone the case of the efficient unemployed would be met The enlargement of output would be a happy thing for the existing inefficients and ageing members of industry Their work would not be needed, and the new liberality of output would make it possible for them to be treated with a just generosity. The new scale of operations would entirely change the aspect of this as of every other industrial 'problem.' Economic difficulties disappear in a reign of abundance.

Here again we must remind ourselves that there is an enormous lag to make good. The economic framework is largely obsolete and in need of renewal It is idle to talk of an existing 'plethora' of wealth and production in a country which, like every other, consists mainly of almost propertyless people It would be time enough to talk of what to do about the spending of leisure when the backwardation had been made good and the nation started on the new road

Sooner or later, of course, unemployment will arise in every Guild. It will not be an *idleness enforced by deprivation of the means of livelihood*, but a leisure earned by scientific labour and happily distributed for the enlargement of life and culture

As things are to-day, and as things were yesterday, the mostly propertyless proletariat, dependent upon a limited owning and employing class for the means of subsistence, is never free from the fear of unemployment and is periodically plunged into deep distress.

The number of registered unemployed in Great Britain and Northern Ireland on March 20, 1933, was roundly 2,800,000. As this included not all the uninsured unemployed, the true total probably exceeded 3,000,000. A one-day count such as this does not tell us what proportion of the wage-earners are unemployed at some time during a year; probably in 1932 the number was not less than 12,000,000 It is the greater part of our working population that is affected by the crowning social shame of unemployment.

There is so much talk of 'world crisis' that it is well to remind ourselves that unemployment has been always with us. Even in such a 'good' year of trade as 1899, twenty-eight years after the close of the then last great European war, our Trade Unions that had unemployment benefit funds, having a membership of about 650,000, paid out £185,000 to support the unemployed members; in the 'bad' year 1904 they paid out £655,000, and even in 1907, when there was 'recovery,' as much as £466,000. Between 1900 and 1914, these Trade Unions again and again experienced an unemployment rate of over 5 per cent. of their membership, although British exports were making increase; it is probable that throughout that period one-day counts of the unemployed in all trades would have reached a number never less than 400,000 and sometimes exceeding 1,500,000. There is a strange disinclination to face these facts; the 'world crisis' is spoken of as though the World War ushered in a new order of industrial imperfections; as though unemployment had not always been with us since modern 'wealth' created modern poverty. 'The Lady Poverty was fair; but

she has lost her looks of late.' It is not the least recommendation of Product Money that it would be issued against the cheerful product of the lately unemployed.

5. Ending the Trade Cycle

THE application of currency to unorganized production is necessarily to produce the trade cycle, which is no new phenomenon.

The system is such that it provides an automatic curb upon productive power The owners of capital, buying labour as cheaply as they can, deny a market to the produce created by their own machines. Periodically, production advances, only to cause the glutting of poverty market So comes on the 'slump'; by which we mean that normal poverty is accentuated, often to the extent of panic and the smashing of monetary institutions.

The movement of 'trade' in a rhythm of alternate booms and slumps is inevitable, a fact which did not prevent the unfortunate people of the United States from boasting in 1929 that boom conditions had come to stay and that prosperity was firmly established! As I write, there are more unemployed in America than in all Europe!

It will not do to attribute the latest American crash to the effects of the World War. America took little part in that war, save to profit by it in the building up of larger industries It is not true that that enlargement led to a production beyond the capacity of her people to absorb, for poverty was widespread in

America at the very height of the boom In 1926 I encountered beggars in every American city I visited. The American commercial and currency system utterly failed to provide her people with an adequate means of payment, *hence the widespread resort to hire-purchase in a vain attempt to work off in consumption an inadequate production.* The tallyman is needed only in a sphere of abject poverty, lost to self-respect. Only those who failed to examine American slums and American shanties were deluded by the 'prosperity' talk of 1929 [1]

In America, as in Great Britain, and as in other industrial countries both before and after the World War, the trade cycle proved to be a normal consequence of an exploitation utterly unsuited to the modern methods of production which began in the middle of the eighteenth century. As the means of production improved, the crises became more acute In 1907, the late Theodore Roosevelt, then President, had many true and unpleasant things to say of American monetary methods, and we may well remind ourselves that the appalling crash of that year, the wholesale breaking of American banks, and the issue of an emergency currency, happened seven years before the World War, and many years after the world had last known war on a large scale.[2]

[1] In 1926 I inspected a choice American slum, running with inky mud, hard by a great (and untidy) steel works! I was told that foreign visitors usually confined themselves to looking at the works

[2] Or let us go back to the eighteen-seventies The following is quoted from Mr Burton Hendrick's *Life of Andrew Carnegie*

'One day America was joyous with riches, and then, without the slightest warning, came the crash, and the nation was a heap of financial ruins Bank after bank put up its shutters, and despair-

Product Money would end trade cycles in the domestic domain With its employment, the machine which produced to capacity in the year 1950 would either be producing to capacity three, five, or ten years later, or be happily displaced by an even better machine producing to capacity. There would be no internal cause of check to production and consumption save seasonal effects which would, of course, be pooled The failure of harvest is an 'act of God,' but a society armed with a liberal general production would not find it difficult justly to remunerate its agriculturists in a difficult season.

It is true that, assuming the continuance of the conditions of what has hitherto been normal disorder in external trade, foreign irregularities would have a certain reaction upon domestic work In the conditions of domestic production that would obtain, the worst of such irregularities would fail seriously to disturb the domestic economy. Materials would, of course, be stocked by the Guilds to ensure regularity of supply. Export trade, which in our present economy occupies only the smaller part of our population, would form an even smaller fraction of the enlarged work of the new organization.

ing queues before their entrances became the commonest sights in American cities Railroad after railroad confessed bankruptcy One factory after another dismissed its workers, frequently with unpaid wages

'The stocks and bonds which had ascended to dizzy heights in the early months of 1873 now fell to depths which beggared millions The New York Stock Exchange suspended operations for a week Money passed out of circulation, those fortunate enough to possess a little feverishly hoarding it'

If these words were undated, they might be thought to describe the America of 1933

We may here observe that the extravagant conditions of the world crisis have failed to cause either unemployment or depression in the Soviet Union, the work of which has continued to expand while every other country in the world has seen its workmen discharged and its factories reduced in large part to idleness.

CHAPTER VIII

STANDARD OF VALUE AND JUST PRICE

1 The Erection of a Standard of Value

NOW that Britain has 'gone off gold'—now that the 'price' of commodities is no longer a ratio of goods to gold—we realize in practice that a standard of value can be erected in terms of paper by relating the quantity of commodities offered for sale to the quantity of money in circulation As I write, early in 1933, the Bank of England (as we saw in Chapter III) has issued a relatively small quantity of paper 'promises to pay,' having no meaning whatever in fact, which paper promises, however, count as 'legal tender,' and the great commercial banks, treating these paper promises as their 'cash,' base upon its flimsy existence a much larger amount of bank deposit currency, all of which is theoretically convertible into the intrinsically worthless and much smaller quantity of paper promises to pay nothing

If I or any other person had invented such a 'system,' and gravely proposed it for practical use, I wonder what would have been said! If the 'system' works after a fashion, need we wonder if the fashion is ill-favoured and if those who wear it show constant signs of depression?

Yet the acceptance of such make-believe, couched in official language of deception printed on every paper

note of 'legal tender,' is not without its value. It shows that, putting aside the absurd legal formularies, it is possible to relate very limited exchanges of real commodities to a purely immaterial money, the quantity of which establishes an exchange ratio between itself and commodities, and therefore also between commodities themselves.

How much more, then, could we rely upon the acceptability and practical operation of a money of known origin and worth, bearing upon its face an unimpeachable certificate of valiance!

The existing British 'standard of value' is a 'pound sterling' of unknown but variable meaning, whose purchasing power is subject to a policy which cannot be stated and which is not precisely known even to those who frame it. It is a product of empiricism, born of panic, sustained in purchasing power at home by quantitative experiment, and partly governed in exchange value abroad by Governmental dealing in foreign exchange, through an Exchange Equalization Fund specially voted for the purpose.

We can and must do better than this. We shall find that the case is susceptible of simple solution and that it is one with the control of Price and the issue of Product Money

2. The Conception of Just Price

THE mediæval guilds had a proper faith in Just Price. Sometimes that price was settled by the guild producing the article priced; often it was settled by civic authority. What more desirable, what more

socially necessary, than that prices should be settled n such a way as to relate in fairness and honesty the remuneration of the producer and the needs and means of the consumer?

The conception of Just Price faded and perished as the new individualism, now become an old and discredited individualism, arose to drive the British population into dark unhealthy towns and to cause a widespread physical deterioration written in millions of stunted lives to-day In recent times, however, trade unionism, although unable to change the fundamental frustration of modern wealth production, has had some success in resisting reductions in the price of labour, while, for industries in which Trade Unionism had not been established and in which sweating was therefore rampant, the State, by the Trade Boards Acts, enacted minimum rates of wage, determined by statutory Boards

The old-time conception of a Just Price took account of the cost of raw materials and allowed for what was deemed the due remuneration of labour. To-day more factors enter the case, but the essentials are the same, and they are susceptible of scientific treatment.

The determination of price in connexion with the certification and issue of Product Money, as was indicated in Chapter VII, would rest upon a scientific system of costings. Product Money and Just Price would emerge from the Costings Branch in fair company with each other.

The accountancy of a certain production of bricks, for example, would at once determine the price of the bricks to the consumer and the amount of Product Money issued to the brick producers.

It is convenient at this point to consider the Standard of Value for Product Money. Each unit, each Product Note, would represent actual output, at an established Standard of Value. This brings us to that relative thing Value.

Value is worth. In general terms, we speak of a thing as valuable when it has properties of usefulness. The value of an article is what it is worth to us. Yet the most valuable things of all, the sunlight and air and rain, without which life could not exist, have no value as things of sale. We perceive that the 'value' of the market-place is something different from real, intrinsic value, or value in use.

Market value is Value in Exchange, expressing in what quantities different commodities will exchange for each other. In monetary valuation, value is expressed by stating how much of other commodities will be given for the particular commodity used as money. If a commodity is to have value in commercial exchange, or 'price,' it must be limited in supply, and also be in demand for its properties. Hence air is without price, while a most unworthy and unsocial commodity may and often does have a high price.

Product Money, as an instrument of exchange, must be based on an established standard of value, so that all sorts of commodities may be priced by (valued in ratio to) that standard In practice, a suitable standard could be erected in many different ways to work well. For myself, I favour a standard based on the quantity of products needed to sustain life in comfort Thus a Pound Sterling might represent the quantity of wealth needed to sustain a family at

a given standard of life for a given period. This definite erection of a life standard pound would add a fine significance to the new money, which would thus be doubly symbolical, representing botb work done and wealth commanded.

The standard initially established, real remuneration would rise in two ways—through the increase of Product Money and through the adjustment of Just Price With Product Money, the more product the more money, with this proviso, that there must always be suitable adjustment between industries in which invention does much and industries in which invention does little, that adjustment could be made without difficulty in Just Price.

The pouring out of Product Money would not raise Just Price, for, as we saw in Chapter VI, no inflation would or could occur On the contrary, in trades much affected by inventions, Just Price would fall, so that easily produced output would be properly commanded by those earning Product Money in less fortunate trades.

The variation of the potency of invention as between industry and industry is a curious thing, which has gone largely unnoticed It is altogether ignored by those who speak of every man's work as though aided by magical machinery. It is too often forgotten that while invention has done much for some trades it has done little for others It is rather a pity, for example, that invention has given us cheap and good motor-cars rather than cheap and good houses, for as things are our people are killed and maimed by the cheap and good cars, and killed and sickened by the lack of cheap and good houses

In industries greatly aided by invention, Just Price would give great cheapness; it could not do so in trades for which invention did little. Product Money, based on a rational standard, would in all cases make fair exchange of the products of labour—exertion for exertion.

The purchasing power of Product Money is seen to be one with the adequate remuneration of the agents of production, and with the efficiency of the machinery employed. That purchasing power must be high when the multiplication of man-power by science is unchecked. In essence, therefore, we arrive at the old and excellent ideal of value expressed in labour-time, given a new and miraculous meaning by science. The desirable thing is accomplished, and it is accomplished easily and naturally because of the essentially scientific character of the monetary conception involved in the process.

CHAPTER IX

NATIONAL PLANNING IN THE WORLD WAR

1. A Successfully Planned Economy

BRITISH experience in the World War afforded many illustrations of what a modern nation could accomplish in organized production. Britain began the War in August 1914 an individualistic State, and after being nearly brought to disaster and defeat through lack of economic organization—through the worship of the competitive system—pulled herself together, devised a rough-and-ready economic plan while under fire and besieged, and finally emerged from the conflict a triumphant Co-operative State with all its important economic activities planned and controlled. So little has this striking progression been understood, and so many have been the agencies engaged in misrepresenting it, that few people understand either what was done or the sea-change in principle and method involved in the war-time economy that saved the nation, and therefore the Allies also, from utter defeat.

No doubt a good deal of the misconception and conscious and unconscious misrepresentation arose from the common and ridiculous habit of decrying what is called the politician. It is always a popular

thing in war-time to acclaim the fighting forces and to abuse the civilian government. The truth about the War is that the work of the fighting forces was no less admirable when Britain was in sight of defeat than wben she was victorious. The Navy was as efficient early in 1917, when the United Kingdom was threatened with starvation by the German submarines, as when in 1918 the submarine menace bad been successfully averted. The difference in the results achieved at the two periods was due not to increased naval gallantry, hut to increased economic wisdom; to wiser civilian dispositions.

Thus, again, with the distrihution of imports, of food and material, to sustain hoth the fighting forces and the mighty civilian population behind them; economic organization saved the nation. Thus also with the manufacture of munitions; if in the darkest hours of defeat preceding the dawn of victory it was found possihle to replace instantly the grave material losses sustained through the overwhelming of the Fifth Army, it was because rapid large-scale organization of production and supply had heen suhstituted for the hapbazard efforts of private producers. If towards the victorious end a greatly reduced number of merchantmen was bringing to our ports the goods, the materials, and otber things needed to sustain the nation in circumstances of the most terrible difficulty, it was because national economic planning had been carried so far that *of each 100 tons of imports 95 were selected, directed, shipped and controlled by the State.*

The results achieved so qnickly in tbe World War will only astonisb those who do not realize that there is no essential difficulty about organizing what is

called a 'great nation.' The real difficulty about economic life does not arise from organization but from lack of it. When, for example, the imports of wool or tea or rubber are left to the play of what are amusingly termed economic forces, but are actually uneconomic and wasteful forces, a host of redundant agents necessarily reduce to disorder what could be simply and effectively organized in the public interest.

The common misconception about the scale of our trading operations was illustrated in a very serious manner in the War when the Admiralty completely misunderstood the dimensions of the British Mercantile Marine. It was imagined that an enormous number of ships needed protection. In actual fact, the number of big British ocean-going cargo ships in existence in 1916—ships, that is, of over 1,600 tons—was the surprisingly small number of 3,500.

Thus, while the very limited size of the mercantile marine constituted a supreme danger for the United Kingdom that depended upon it, that fact made it possible for the Admiralty to provide suitable convoys, given proper disposition of the cargo ships. When this was once grasped the way was plain.

In war and peace alike our conceptions are blurred and confused by the exigencies of petty dealing We have not yet awakened to economic possibility. For so long the world has been accustomed to almost universal poverty that it is exceedingly difficult to envisage an adequate production. Thus we speak with bated breath of organization as though it presented stupendous difficulties when, as a matter of fact, it can be readily achieved. The rapid development and transformation of British industries in the War,

properly viewed, are eloquent of the nature of the results that can he achieved in the most untoward circumstances. Moreover, the war-time economic organization was effected despite the determined opposition of many statesmen who were convinced opponents of organization and who sincerely believed that any attempt to organize would be followed by irretrievahle disaster. Planning had to be done by an enthusiastic few in the teeth of many who opposed it and vilified it in public and in private. The greater the achievement!

2. Fewer Producers but Greater Product

THE success of war-time output was achieved while industry was deprived of the economic assistance of the main part of its manhood. With fewer men we made more goods, which need only surprise those who do not realize the truths about existing production stated in these pages. Let us remind ourselves of the dimensions of the Army drain upon work. Between 1914 and 1918, 5,700,000 men passed through the Army. Between the end of 1917 and the Armistice there were nearly 4,000,000 on the strength. These figures, it should be clearly understood, refer solely to soldiers of the United Kingdom and do not include Indian and Colonial troops.

Although we thus devoted to war, to economic idleness, the hest working powers of the nation, our industrial estahlishments produced more goods than ever hefore in British history.

If in time of peace our men were for the most part employed in genuinely economic operations, the outbreak of war would necessarily reduce the production of goods enormously. It is just because in peace so many men are wrongfully employed, while many more work without the aid of the best appliances, that when war came we found it possible, by extemporized and necessarily faulty organization, to do much more work although we had much less available labour power.

So war, the most dreadful of trades, demonstrated not indeed the full possibilities of economic production, but that in the most difficult circumstances, with a powerful enemy at its throat, the nation could put millions of men in the field and yet do much more work than in peace.

I wonder how many people know that *there were more men in the British Army in 1917 and 1918 than were engaged in all our manufacturing industries when the War broke out* [1]

3 THE WAR MANUFACTURE OF MONEY

BETWEEN April 1914 and March 1920, the United Kingdom spent £11,268,000,000, of which rather less than two-thirds were borrowed. The loans raised, mainly in the United Kingdom, amounted

[1] Those who are interested in this very important subject will find an extended account of the war-time economy in the present writer's *Triumph of Nationalization*, it contains much information not readily obtainable elsewhere, if at all.

roundly to £7,200,000,000. Less than £900,000,000 of this great sum was borrowed from the United States, so that for the most part British expenditure in the War was made out of domestic resources.

Those who have followed the method by which the banks manufacture bank deposits will have no great difficulty in understanding the 'finance' employed. What was done was to enlarge the scale of ordinary deht creation. There was a mass production of the dehts we call credits.

The Bank of England obliged the Chancellor of the Exchequer with bank overdrafts, but of course such a dreadful word was never used in so august a connexion. To use the proper jargon, the Bank of England made 'Ways and Means' advances to the Exchequer. The advances were placed to the credit of the Government in exactly the same way that a banker places an overdraft to the credit of a private person. Upon such advances the Government drew cheques to pay contractors for supplies and munitions, thus increasing public purchasing power and bank reserves. Increased bank reserves made it possible for the banking system to lend to husiness men on a much larger scale, and so the volume of credit was vastly expanded.

So, too, with the various War Loans. The subscribers borrowed from their banks to pay the instalments; this borrowing increasing the 'bank deposits.' The subscribers of the War Loans drew cheques upon horrowed 'deposits' and paid them to the Government. The Government, thus ohtaining the transfer of private persons' borrowings, drew cheques to pay war expenses, and thus swelled the bank reserves and general purchasing power; in their turn the hanks

were then enabled to 'lend' again. Very amusing—and very serious.

Thus we had the manufacture of debt on a gigantic scale, the manufacture of immaterial money in thousands of millions of 'pounds' making it possible to produce more goods (with far less available labour) than ever before in the history of the country.

The consequent indebtedness of the State remained and remains; in common and erroneous parlance, the War is not yet paid for. The entire community has to satisfy the interest on an enormous indebtedness and to make a big annual contribution to a Sinking Fund, while the great fall in prices enormously increased the burden of the debt.

With the use of Product Money, no such debt operations would be necessary, at least in connexion with internal production. If, for example, more coal, iron, or cloth were needed for war purposes, the coal, iron, or cloth produced would immediately rank for Product Money, and no authority would have to borrow to buy more of these things. Thus also with every other internally produced commodity required to meet the exigencies of war. In its external aspect, borrowing might indeed be necessary, but even if it proceeded on the scale of the War of 1914–18, the resulting burden would be relatively a thing of small importance. Obviously, given a production liberated by Product Money, the only special supplies needed from abroad in case of war would be of exotic or special materials.

CHAPTER X

THE ORGANIZED STATE AND THE INDIVIDUAL

1. Liberty as it Is

THE money system proposed in these pages is necessarily based upon organization, and organization suggests to many minds the infringement or curtailment of human liberty; it is therefore of great moment to inquire how the individual is likely to fare in a State in which, whether in production, transport, or distribution, work is deliberately organized to secure the best economic results. The extreme individualist of old, almost forgotten days, gave us the formidable image of the Economic Man. We need not fear that economic organization would give us an Economic Man bereft of initiative and individual freedom.

Modern tools are big, and those who own them are relatively few. The majority of our people are for practical purposes propertyless, for what avails it to be buying a tiny house through a building society when it comes to the performance of daily work—the earning of a livelihood? The scraps of property owned by the masses do not avail as tools of work.

We saw in Chapter V that as few as 15,208 persons left £409,000,000 out of the £517,000,000 passing at death in the financial year ended March 1931. The greater part of the means of modern work is owned by a few. The masses of the people are owned because their livelihood is owned; because they cannot live save by permission of the owners Let those who will sneer at the application of the term *proletariat* to the modern wage-earner or salary-earner; the casual sneer does not dispose of the facts I have cited, while to aggregate the totals of savings certificates, savings-bank books, and building society funds only deceives those who forget the magnitude of our population and the fact that the masses do not own modern tools. It is an abuse of language to term a man free when he can only earn his living through an owner.[1] Surely

[1] The process in its crudest form has been freely applied to the unlucky natives under white rule Mr John L Hodgson, B Sc., M I Mech E, in a paper on *Communal Waste* read to the Royal Society of Arts on Feb 19, 1932, described, as an eye-witness, the reduction of the South African native to the proletarian status. He said (in part) 'When Johannesburg was established it was found that before the native could be induced to work underground amid the death-making quartz of the gold-mines, his economic freedom had to be taken from him by the imposition of hut-taxes and other payments which had to be met in money It gave me cynical amusement to watch the effect of an increase of wages . . to the unsophisticated native, money was only a means of freeing himself from a task which he despised the increase in wages therefore reduced the available mine labour As soon as this was realized . . wages were reduced and betting was introduced This resulted in most of the natives losing their earnings, and running into debt . . Thus a docile and permanent labour force became available as soon as economic freedom was eliminated' Mr Hodgson adds that for every bar of gold (60 lb) that left Johannesburg one native died of miner's phthisis and five others were ruined for life, his publication of this fact in 1916 led to action

those who denounce organization as an infringement of liberty should consider what of liberty is now enjoyed by the great majority.

It is also well to remind ourselves that in existing circumstances the freedom of the individual is circumscribed not merely by the necessity to find an owner, but by the inseparable ties created by earning a livelihood. For many millions, if not for the majority of our people, even the choice of occupation has to be made within very narrow limits. A boy in a mining village, a girl in a textile town, has small choice of occupation, and when occupation is found, it is fraught with uncertainty and carking care The losses through short-time, the terrors of unemployment, make saving difficult or impossible, and the coming of age always means growing anxiety as to losing one's job. After the exercise of mechanical power in Britain for nearly two centuries, the ageing worker of a proud nation finds himself compelled to conceal his years. It is not commonly realized how large is the sale of hair-dye among workmen over middle-age.

For the masses of the people, liberty as now spelt amounts to the right to work arduously to earn the means to live meanly in a confined area in a poor dwelling, to be deprived of that right as age advances or at any age when trade is depressed, the first 'economy' being the reduction of the wage bill. The manual work without which society cannot exist is most unjustly thrust upon a class the individuals of which are treated as social inferiors by those who

by the Minister of Mines which saved many lives The callous degradation of natives to the marginal life has become a commonplace in many parts of the world.

avoid work while profiting by it. The discharged workman, the enjoyer of liberty, his right to covenanted unemployment insurance benefit exhausted, is thrown a small weekly gratuity, the paltriness of which is accentuated by terming it a 'dole' If he has saved a mite, or if he is a 'war-hero' drawing a pension, his dole is reduced to microscopic proportions.

Physical deterioration is common among the free citizens So widespread still are the conditions of essential poverty in which liberty is enjoyed, that the early days of 1933 sees the British War Office erect its standards for new recruits at a minimum height of 5 feet 4 inches and a minimum weight of 8 stone 3 lb. It appears, therefore, that nearly fifteen years after the World War British recruiting reveals the same accusing order of results as when, in 1917–18, we found that our men of military age were as to two out of three below the normal standard of health and strength, while over 40 per cent. were of marked physical disability or totally unfit.[1] Such an astonishing proportion of physical unfitness hardly suggests the possession of human liberty worth the name.

If it is true that, with adequate organization, we can save so much labour as to be able abundantly to distribute leisure, there opens a fresh avenue of human liberty. While labour is poured out in waste, a host of unnecessary occupations compel the irksome waste of time which might be given to liberty. So soon as we perceive the true extent of the astonishing facilities science has provided, we see also the solution of the problem of freedom

[1] See the Recruiting Report, Cmd 504, of 1920.

2. The Gospel of Earned Leisure

THE American Technocrats, hasing themselves upon the present advancement of science, without allowance for the further progress which will be undoubtedly recorded in the near future, declare that all the common material needs of American society can be met in a week of four working days, each day to consist of only four working hours. An American engineer, quoted hy Mr Frank Arkright in his *A B C of Technocracy*, has put it · 'The machine is an agent of liheration. Each of our 35,000,000 (American) workers now uses 3,000 energetic slaves in the form of 300 mechanical horsepower, each horsepower heing the equivalent, in work done, to ten human slaves. The machine as a whole requires two (not four) eight-hour days a week for each worker Why should we do more when, as Russell says, " the morality of work is the morality of slaves " ? '

This was spoken of America, and like many other utterances of the same sort it ignores the fact that the majority of Americans, like the majority of Englishmen, work with little or no scieotific aid. It is not true that 'each of our 35,000,000 workers now uses 3,000 energetic slaves.' For example, an American dealer, like an English dealer, merely *deals*, and science avoids him even as he avoids science.

While our mechanical equipment lags considerably behind those of America, we have it in our power, like America, to employ every known device to increase the productivity of labour, and therefore at once to satisfy material needs and to produce leisure as one

of the commonest of scientific products. Let us consider the advance in power since the middle of the eighteenth century, when the Industrial Revolution began.

In 1750 the population of the United Kingdom was about 10½ millions, and perhaps included 4½ million breadwinners, working almost entirely without machinery In 1933 our population (with all Ireland) is about 50 millions, and includes over 22 millions working for gain.

If we take it that the 22 million workers have had their *potential* powers of production multiplied by the science of the last 150 years only 100 times, *their working power has become that of 2,200 million persons of the conditions of 1750*

To put it another way, the 10,500,000 people of 1750 had 4,500,000 workers, whereas the 50,000,000 of 1933 *have, in potential effect, 2,200,000,000 workers!*

In potential but not, alas, in real effect! A few work with the best machines; the many work without scientific aid, and often beyond the possibility of scientific aid, in the trades of inefficiency and waste. The number of persons in the British Isles working with a full scientific equipment in essential trades can at most be a few millions in a population of 50 millions If an abundance of commodities and an abundance of leisure are to appear simultaneously, it cannot be while the greater part of human effort is misdirected and unaided by science

The adequate enjoyment of leisure depends not only upon having time to spend, but culture to bring to it, and the reasonable command of well-earned goods and services A man of culture disdains the

conception of property-owning as releasing him from a proper contribution to the society that serves him, and of which he is an integral and inseparable part. Not by the road of gain derived from property in capital is any worthy leisure or liberty to be enjoyed. A true sense of civilization is inconsistent with such conceptions, which can only confer liberty upon one individual through the deprivation of another. The plentiful liberty to be gained by organization is unpoisoned by the sense of taking more than one gives.

3. To Increase Property-Owning

THIS brings us to the consideration of property in its relation to human welfare. Property is an excellent word; it means *that which is proper to a person; that which is one's own.* A scientific output could multiply to the point of satiety the output of all those personal possessions properly termed 'property'; even as we could also multiply indefinitely the industrial plants which no one in his senses cares to own individually.

The growth of that joint-stock system which Adam Smith believed to be impossible has created a class of absentee industrial property-owners who rarely or never see their possessions and who still less have any opportunity to control them. If a shareholder in one of the chief of our limited liability companies asks to inspect the works, he meets with a prompt refusal. That is not always the case, but it is generally true that the shareholder has no property in his

company in the real sense—nothing that is 'proper to his person' A fraction of a calico shed, of an engineering shop, of a railway, of a department store, is not worth having as a piece of personal property; it is only valued for the income it yields, and as we have had cause to observe already, it too often means anxiety and loss On the other hand, true personal possessions—things for personal use and enjoyment, form a proper aim, and one which industry is now competent to serve in abundance for all.

Scientific organization offers the individual in exchange for what is at best a precarious share-owning, and what is at worst a mere opportunity to work without either social aim or worthy personal profit, the liberal employment of faculty in some pursuit thoroughly understood in its social relations, rewarded by a generous dividend of goods and services of a properly personal character Insecurity is now the lot not of one class, but of all classes of the community; it can be exchanged for honourable economic security and excellent personal adventure.

There is now no such thing as 'safe investment,' either at home or abroad In vain the saving father of a family seeks to safeguard his people against the vicissitudes of a darkening future The best investments are precarious; the remainder are traps for the unwary Each so-called boom of trade witnesses the deliberate manufacture of rubbish investments by which tens of thousands are gulled We have seen how the Macmillan Committee on Finance and Industry, reporting in 1931, said 'The individual investor can hardly be supposed to have himself knowledge of much value either as to the profitable

character or as to the security of what is offered to him. How easily he can be misled in times of speculative fever by glittering—even tawdry—appearances is proved by the experience of 1928'; and the Report already quoted goes on to show that 284 companies floated in that year of 'boom' had lost nearly half their capital at May 1931. The Committee added rather gratuitously that 'you cannot prevent a fool from his folly,' but many of the people who invested in these concerns were by no means fools; some, it is on record, were men who had won distinction in good work; small blame to them that they became food for the 'financier' Not a few were misled by the fact that the names of great banks were printed on the rotten prospectuses, so that they looked eminently respectable. Nor should we suppose that the manufacture of sham investments in 1928, with the aid of titled and other guinea-pigs, was by any means an exceptional period of financial depredation. In the past fifty years thousands of millions of pounds of investors' money have been wasted by the City shark; a long series of amending Company Acts has failed to suppress him.

4. Escape from the Petty Life

INDIVIDUAL liberty is a mockery when life is merely part of a scramble for a fraction of a petty production. The best energies of men are consumed in disreputable monetary adventures; the scale of life is unendurably mean and tawdry. The

mind is subdued in a sordid economic atmosphere. The struggle is fierce, but the fight not worth the waging. Even for those who succeed, in the sense of gaining an undue share of the little that is going, the coveted fortune proves to be not worth the possessing. Rarely, in a commercial society, is your commercial magnate found to be a man capable of enjoying the kind of liberty he has won in the possession of monetary wealth. More often than not he achieves it too late to find it worth expenditure or to learn the elements of good spending.[1] In England especially it is rarely that he is discovered ennobling his gains by public munificence.

For the masses there is nothing strange in current conditions, which are accepted as of the inherent nature of things Education as it is has nothing to tell of economic possibility. Publications of every sort and kind appeal to the multitude by offering them prizes in competitions, and advertising trades have joined in the game by offering prizes in exchange for coupons That a civilized community, nearly two hundred years after James Watt took out his steam-engine patent, should be tempted by such offers, is a scathing commentary upon the pettiness of existing

[1] Thus Horace on property, writing nearly two thousand years ago (the free translation of Ruskin in his *Munera Pulveris*): 'Were anybody to buy fiddles, and collect a number, being in no wise given to fiddling nor fond of music, or if, being no cobbler, he collected awls and lasts, or having no mind for sea-adventure, bought sails, every one would call him a madman, and deservedly. But what difference is there between such a man and one who lays by coins and gold, and does not know how to use, when he has got them?'

And thus Xenophon some three centuries before Horace, upon the things that are 'proper to a person': 'Things are only property to a man who knows how to use them.'

production, and of the meagre dimensions of modern wealth. If our society exerted economically only one-hundredth part of the scientific power it actually possesses, such appeals would be made in vain The prize competition and the coupon would be laughed to scorn by a people organized to produce even a modest standard of general comfort.

It is necessary to rescue the individual from the sorry environment now provided by the marginal life. For the pursuit of a bad money, which can buy so little worth having, we have to substitute the pursuit of real wealth. For a money that frustrates, we can substitute a money which is at once a symbol of production accomplished and of product earned Product Money, paid upon certified good work done; paid because it is done; not because a thing is sold, but because it is accomplished; paid because to make well to accredited order is immediately to become possessed of the power to spend; can give such a degree of liberty and such dignity of work to the individual as to recreate him as a unit of regenerated society.

Of all forms of rule, that is most unworthy and most tyrannical that rests in the ownership of the means of life. It is vain to talk of human liberty while the majority of human beings owe the livelihood which is life to the bestowing of employment; to those able to employ because they command the economic machinery. They rule who own. Who owns the machine owns the lives that work the machine, because they cannot live unless the owner gives leave. It is idle to attempt to escape from these truths. It is an abuse of fact and of language to pretend that individual liberty is consistent with the conditions of a society

in which the nation as a going concern is owned by a relative handful of its population. The substitution of production for use, with the aid of Product Money, would make the output of wealth so enormously greater than at present that the obsolete conception of wealth as a rare thing would pass. Men would come to wonder that ever a time existed when the possession of a 'fortune' was thought to be covetable, and when the control of life by a group of property-owners was regarded as consistent with social sanity.

CHAPTER XI

THE RELATION OF PRODUCT MONEY TO INTERNATIONAL TRADE

1. Trade is Mainly Home Trade

PRODUCT Money need not wait upon the reformation of international monetary processes. The normal world muddle, as accentuated by the War and the monetary delusions written in the four dictated Peace Treaties for the admiration of posterity, does not invalidate the adoption of Product Money by any State. Product Money is good money, and as good money it must command respect in the international exchanges whatever the particular degree of their muddle and mischief at any particular time.

In 1933 the world of work is in the doldrums. So deadly is the calm that man's chief tool is laid aside. In 1913, *annus mirabilis*, the United Kingdom had a sufficiently small monthly production of 855,000 tons of pig-iron and 639,000 tons of crude steel. This beggarly output looks big when compared with that of 1932, when the monthly average output was 298,000 tons of pig-iron and 438,000 tons of steel! Or let us look at the chief world iron and steel figures since 1929:

PIG-IRON OUTPUT: MONTHLY AVERAGES IN THOUSANDS OF TONS

Year	United States	Germany	France	United Kingdom
1929 .	3,540	1,099	850	632
1932 .	724	322	455	298
Fall .	2,816	777	395	334

CRUDE STEEL OUTPUT · MONTHLY AVERAGES IN THOUSANDS OF TONS

Year	United States	Germany	France	United Kingdom
1929. .	4,703	1,332	795	803
1932 .	1,091	472	460	438
Fall . .	3,612	860	335	365

International and domestic issues are both involved in these amazing figures. I invite those who have no eyes save for the ends of the earth to consider: (1) that the falls were due largely to decreases in *production for domestic use*; (2) that each of these four countries needs the *domestic* consumption of more iron and steel than it produced in 1929; and that (3) only

a monetary system which inhibits home consumption prevents the four of them in not only employing fully but greatly expanding its iron and steel works on home account. True it is that international trade is at the mercy of special factors; the more reason for each of these nations to help itself with its own fuel, ore, and flux (the ore supplemented by extraneous supply, a small matter) liberated in consumption by Product Money. No confusion or folly abroad need prevent a nation in working its own estate.

What is true of iron and steel is true also of a host of industries, and especially of the great mass of work connected with what may be called the national framework—the good land of Britain, the Fortunate Island, with all its mines, railways, canals, roads, bridges, ports, harbours, docks, gas, water, and electrical plants, and last but not least, towns and villages with all their dwellings and other material provisions for hygiene, comfort, and amusement. It is these things, and the general service of the home population, which chiefly engage the labours of the British people.

Of some 21 million persons working for gain, the number working for export does not exceed 2,800,000 in 'good' trade; in bad trade, as in 1933, it is far less. The Census of Production Report for 1930 showed, as we saw in Chapter IV, a product valued at £1,512,000,000, the work of some 7,200,000 persons. The exports of that year of the sorts covered by the Census of Production were roundly £530,000,000. (The Census was for Great Britain only; the exports those of Great Britain and Northern Ireland, but we may neglect that as a fractional difference telling against the point made here.) From this we see that

in 1930 the number of persons working for export (apart from transport and agency) was perhaps 2,500,000, or about 12 per cent. I am quite sure that the general impression is quite otherwise; it is widely believed that a very large part if not the majority of our people work for export

It is irrational to let domestic work slide because the world at large is out of joint Work begins at home, and with due organization and liberated exchange, even a further reduced exportation could pay for all the food and exotic and special materials needed to supplement home supplies. I do not desire to be misunderstood; I am far from deprecating oversea trade; still further from suggesting that we should not do everything possible to break down international economic barriers; I am insisting upon the common sense of working the more earnestly and thoroughly at home when foreign affairs are awry. Abroad we can do no more than give or take aid, counsel, or example; at home we have governance There is no customs tariff between the British brickyard and the British municipality responsible for the perpetuation of the British slum; between the British steelworks and the many decrepit and inconvenient railway stations that disgrace the land. Moreover, every nation owes it as much to the world as to itself to cultivate its own territory to the utmost.

2. Gold Valuation

As for the international monetary issue, there can surely be no doubt that, sooner or later, gold will be finally abandoned as a standard of value

linking up the world's moneys It will come to be universally realized that tbe book-keeping involved in the exchange of commodities, whether domestic or international, is in no way dependent upon the existence of a rare, beautiful, and untarnishable metal, the uses of which are very limited. In ancient days, gold was almost synonymous with wealth, and the metal established a complete dominion in the minds of men. That was not strange when gold was freely used for personal decoration and for the adorning of kings' palaces. It is not a little strange, however, that it should have survived until our own day. As Edison once asked, 'Is it not absurd to have, as our standard of value, a substance the only real use of which is to gild picture-frames and fill teeth?' So little is gold needed as a metal that its value is only maintained hy the insane process of burying it in the vaults of central hanks as soon as it is lahoriously extracted from the earth. The greater part of the world's gold has heen thus solemnly interred The funeral of gold is celebrated by prolonged obsequies at which our greatest and wisest men discharge suitable orations. It is not known when these will end, but the end is certain.

The gold standard, abandoned by so many nations, cannot possibly remain, because while mankind possesses the power to increase the supply of commodities enormously, the supply of gold cannot he increased save within very narrow limits. Gold must necessarily become year by year a diminishing factor in ratio to commodities. With a gold standard, price is the ratio of goods to gold—the valuation of all other commodities in terms of gold. Therefore, with

the ratio of commodities to gold always widening gold would continue to appreciate, which is to say that prices would continue to fall under a gold standard Thus the owners of gold debts would have an increasingly unjust lien upon the world of work, which would find issue in just repudiation and revolution.

Gold prices fell by about one-third between 1928 and 1931, reducing the world to universal distress. A purely monetary depression, playing havoc with the Marginal Life, spread from land to land like a pestilence Let us not forget that what actually happened was a *rise in the value of gold* Commodities no more fell in value (save in the absurd monetary expression we had devised for our own discomfiture) than the stars really revolve in the firmament. It is the Earth that revolves, causing the stars to appear to revolve; it was gold that rose in value because foolishly given a false and deceptive, yet commanding, relation to other commodities.

Thus the useless thing, gold, put down the purchasing power of all useful things, and brought both useful and useless persons to hardship Stripping away the gold façade, let us see clearly the truth. What is the real 'money' of a wheat-farmer? With what does he really buy? The answer is that *his wheat is his money.* If throughout the world the wheat-farmers are in ruin, it is because a childish process has *destroyed the purchasing power of their honest money—the purchasing power, that is, of their wheat.*

So a false money was set up to cheat and destroy the value of the producers' real money—the bartering power he earns by his labour. Well we may recall the famous words of William Jennings Bryan: 'You

shall not press down upon the brow of labour this crown of thorns; you shall not crucify mankind upon a cross of gold.'[1]

Let us also note that gold prices knew wide fluctuations before the War. Here are the facts:

BRITISH WHOLESALE PRICES · 1871–1913
(1900 = 100)

1871	136	1891	107
1873	152	1896	88
1877	140	1899	92
1881	127	1900	100
1885	107	1907	106
1887	99	1913	116

Gold rose greatly in value in 1871–96, and the heavy fall in prices created serious and long-continued depression, calling for a Royal Commission on Depression in Trade in 1885. Then followed cheaper gold, with rising prices and better trade. In the period 1900–13 the exports of all the chief nations rose greatly It is in despite of these serious fluctuations that so much has been said recently of a formerly perfect gold standard, destroyed by the War and politicians! We shall do well to remember that the future would see even greater fluctuations under gold, because of the great increase of power to produce commodities other than gold. As has been so cogently pointed out by Professor Irving Fisher, the gold standard *makes money contracts as truly speculative as the selling of*

[1] Can we wonder that American farmers have resorted to force to resist those who would foreclose upon them? They have been cheated monstrously; their good wheat has been artificially made worthless to them; their most necessary and essential work has been spent for naught and in vain.

futures Every promise to pay in gold at some future date is a gamble.

As I write, early in 1933, the gold-based international monetary system has been, for practical purposes, destroyed Those who desire to resuscitate it do not defend it in principle, for no such defence is possible, what they urge is that it is the only generally acceptable international monetary link In the degree that that is true it is an indictment of the intelligence of the world at large The suggestion really is that the people of the world are mostly fools and that they should be treated as such. It may be therefore that the golden calf [1] will be again set up for a time by statesmen, many of whom have but a scraping acquaintance with the subject, but sooner or later it must be finally deposed, for ignorance cannot endure for ever.

Banking will some day be perceived to be reducible to book-keeping recording the exchange of commodities, and as between nations (or between groups of associated people) the book-keeping will be simplified by big dealing, of which more hereafter. Here and now, in a world still painfully acquiring elementary conceptions of essential things, aod still conducting what ought to be large affairs on a petty scale, the gold complex dominates too many minds. The Gold Delegation appointed by the Financial Committee of the League of Nations in 1929 reported in 1932 that the gold standard is quite capable of functioning in such fashion as 'to achieve most of the advantages

[1] As a 'gold standard' can only mean the employment of a paper and credit currency nominally but not really convertible into gold we ought perhaps to substitute the expression '*gilded* calf

of stability and justice claimed for alternative standards more broadly based on commodities other than gold,' but admitted that this was only possible given the solution of War Debts and War Reparations, the restoration of a reasonable freedom of trade, and close co-operation between the Central Banks of the nations to raise and steady the price level [1]

Following this lead, the Preparatory Commission of Experts set up by the League of Nations to prepare a Draft Annotated Agenda for the World Monetary and Economic Conference of 1933 is couched in terms which, although vague, express hope that a 'Free International Gold Standard' may be restored 'The World Conference,' it says, 'in the absence of another international standard likely to be

[1] Thus Professor Gustav Cassel, in his Memorandum of Dissent appended to the Report of this same Gold Delegation of the Financial Committee of the League of Nations (1932) 'The value of gold has become exposed to so many incalculable influences that it is impossible now in any true sense to speak of gold as a fixed standard of value The destruction of the old gold standard system has in fact, gone much further than a temporary abandonment of the gold standard by some few countries would denote We are faced actually with the complete destruction of the essential quality that made gold an acceptable standard of value for an international system of money It is necessary to keep this fact in mind if we want to form a clear judgement on the possibility of a restoration of an international gold-standard system Such a restoration would, at any rate, require the fulfilment of a number of essential conditions, among which the following should be mentioned here a great reduction in the value of gold, a radical redistribution of the world's gold reserves, the resumption of a systematic gold economizing policy, cancellation of all claims on Reparation and War Debt payments, definite guarantees against the repetition of such extraordinary demands for gold as have occurred during the last few years, and finally, restoration of a reasonable freedom of international trade and of international capital movements.'

universally acceptable, will have to consider how the conditions of a free gold standard could be fulfilled' And it goes on to show, as was done by the Gold Delegation report, how many are the political and commercial difficulties standing in the way.

If we see economists first denouncing the gold fetish and then returning to it in despair, we must regard it as a concession to human frailty. International trade no more needs a gold link than domestic trade needs the humbug and pretence of 'convertible' notes What the nations require of each other are complementary supplies of foods, raw materials, and specialized manufactures The mind steeped in customary methods cannot conceive of these supplies save as won by a complicated mass of small transactions, involving the writing of an enormous quantity of credit instruments and their reference to a gold standard of value as a convenient and traditional common measure Thus a mountain of 'business' and mock-work is made out of a veritable molehill of substance All the surplus timber of a well-wooded nation could be readily bartered in bulk for the surplus supplies of timber-needing nations.[1] The bartering would need no great army of bagmen, merchant-shippers, brokers, dealers, advertising agents, clerks, bankers, and financial agents, but only a relatively small quantity of central export negotiation and book-keeping. The ideal standard for such bartering is not

[1] Thus Britain in 1933 could barter her coal for Russian timber and build the latter promptly into good popular dwellings So British miners, now unemployed, would in effect help to build British houses, while builders' men and transport workers and various trades of supply would be consequentially enlisted Child's play to what we accomplished in the War!

gold or any other single commodity, but one broadly based on representative commodities, in which gold would not even contribute to the index.

The discussion of my proposal for the use of Product Money ought not to be prejudiced by the lamentable world conditions that now exist Product Money can do great work in the domestic sphere by reason of the comfortable fact that, after all, *most of the work of any nation is and must be done on home account.* Whatever we do abroad, let us not forget to mind our own business. Moreover, let it be repeated, whatever the circumstances of international exchange, whatever the standard or absence of standard, Product Money, functioning as an excellent instrument of barter with a high internal purchasing power, would improve the monetary position from an international point of view. Product Money would find its own level in the exchanges, and that level would, in the nature of the case, be a high one. The money of a nation using the Product Money System would be known as intrinsically sound and incapable of inflation.

3. Product Money and Exporting Power

It will be apparent that Product Money cannot but add to exporting power, for it gives the exporter the confidence that goes with large-scale assured output.

If there is any truth in the theory of Product Money, if it necessarily liberates and enlarges production, the exporting power of a Guild of issue must be reinforced

by a consequent cheapness of output. Its materials would be bought in bulk, competitive buying being eliminated, and it would legislate for a greatly enlarged home market which would economize all its operations and greatly reduce on-costs per unit of output. So *long, therefore, as international trade remained competitive*,[1] the export producer, with the Product Money system, would be in the best possible position to compete

The issue of Product Money to certified producers for export need present no insuperable difficulties Issue during and upon the performance of contract would follow the normal course. The acceptance of oversea contract would be approved by Guild authority. The payment by the oversea buyer would be handled in exchange by the Guild's banking branch, which, it will be remembered, is also a branch of the National Central Bank ; it would become a detail in the nation's external balance of trade, setting off corresponding imports.

The organization of export business would doubtless vary as between Guild and Guild It is a matter of

[1] Surely not for ever, but see the next section. And shall we at this point remind ourselves of what Carlyle wrote ninety years ago in *Past and Present*, ninety years being as yesterday in the history of a nation

'The continental people are importing our machinery, beginning to spin cotton, and manufacture for themselves, to cut us out of this market, and then out of that! Sad news, indeed, but irremediable By no means the saddest news—the saddest news is that we should find our national existence depend on selling manufactured cotton at a farthing an ell cheaper than any other people A most narrow stand for a great nation to base itself on! A stand which, with all the Corn-Law abrogations conceivable I do not think will be capable of enduring'

detail for consideration whether it would be well for each Guild doing export work to establish an export branch, or whether export trade in general should be made the province of a special national Export Guild. Such a Guild would do the work now done by export merchant-shippers.

It would also be for consideration whether the whole of the external trade of the country, both import and export, should be controlled by an Overseas Guild which would have the nation's 'balance of trade' always before it.

4. The Regeneration of International Trade

We are entitled, as already suggested, to enlarge the ambit of our conceptions of international exchanges. The institution of Product Money, which involves the erection of a planned national economy, helps us to a new international economic conception

For long the larger units of industrial effort have been endeavouring to abolish the waste of competition The formation of great domestic combines has been attended by the reaching out across international barriers of industrial units whose managers have endeavoured with more or less of success to delimit areas of supply and competition, and to confine within bounds the folly of cut-throat prices. There are practical evidences that intelligent men will not for ever regard international trade as a bone of contention.

It must be confessed that it is a little humiliating to see the potentates of various countries urging their nationals to be better bagmen; to wrest trade from the too enterprising foreigner The spectacle of a world of civilized States, each of them calling shame upon those buying foreign products, while each of them demands greater enterprise from its people in foisting its hated goods upon foreigners who are in turn pilloried for buying them, amounts to one of the greatest practical jokes in world economy, although it must be confessed that there are so many jests of the kind that it is difficult to award the palm

Presently we shall perceive that it is unnecessary, for example, for the wool of Australia to be auctioned piecemeal in that Commonwealth, to be then shipped across the sea to London, and there auctioned again for British and other purposes We cannot fail to notice, sooner or later, that this engages, in what is really costly unemployment, a large number of unnecessary go-betweens in an importation which, after all, is worth no more than £600,000 or so a week In the War we discovered a better way. The wool clips of Australia and New Zealand were acquired by the War Office in bulk by direct dealing between the Imperial and Dominion Governments, the latter paying the wool producers' agreed prices At the same time the Government also bought up the British clips The prices paid were a definite percentage above those ruling in 1914. Complete control was taken of all other wool imports, so that the Government had complete command of the market The wool was then issued to the trade at prices lower than

those enjoyed by any other manufacturers in Europe or America. The War Office next turned to the industry itself and organized production to obtain cheap clothes for our soldiers A system of scientific costing was introduced into the industry, a step as novel in wool as it had proved to be in the munition trades. So we got cheap khaki; without such bulk dealing and organization the taxpayer would have paid twice or thrice as much. After the War, when wool control ceased in April 1919, wool soared. As the Wool Profiteering Report (Cmd. 535, 1920) had it, 'prices rose phenomenally.' British wools, which fetched in 1914 from 12d to 22d per lb, and which the Government bought in the War at a 60 per cent. advance, rose in December 1919 to 28d.–84d. per lb. Australian wool of finest quality rose to 150d.! Fortunately, the Government owned much wool, and made a handsome profit, equally shared with the Dominion Governments; at March 31, 1919, the Australian share was nearly £6,500,000, which means that the Imperial Government had made a similar sum. The chief gain, however, was the saving in wool costs in the War, which benefited as wool consumers both the soldier and the civilian.

What was true of wool was true in varying degree of sugar, tea, hides, leather, wheat, and other primary commodities. It was found not difficult but essentially simple to deal in bulk with what was normally made the subject of many unnecessary complications. Indeed, what, to name an example, *should* be the difficulty in handling £25,000,000 worth of tea in a year of 52 weeks? Why all the commercial fuss about so small a matter?

In 1915 I proposed[1] the establishment of a system of Imperial Purchase and Supply, designed to establish bulk exchanges within the British Empire. Such a system would not only develop Imperial resources actively, but undoubtedly lead to similar transactions in the world at large

As an end and aim we can conceive the establishment of a World Economic Clearing-House, where the export surpluses of all nations would be brought to certain knowledge, and exchanged between the nations in bulk with a minimum of exchange difficulty and 'banking' Thereby would international petty dealing, yoked to obscure and mischievous 'finance' and 'financiers,' become clear and simple large-scale barter, distributing the world's products as never before for the good of all peoples

Thereby also would the real value of peace be borne in upon the minds of men and of their rulers. States peacefully engaged in generous production, and promptly reaping the fruits of that production in enlarged consumption, would be unlikely to invite the return of ancient miseries by indulging in war. The establishment of such a World Economic Clearing-House would amount to a World Economic Federation. So the World State would come into being, erected in the satisfaction of intelligent self-interest.

[1] In a series of articles in the late lamented *Westminster Gazette*

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